THE JOURNAL OF
LIBERTARIAN STUDIES
AN INTERDISCIPLINARY
QUARTERLY REVIEW

Llewellyn H. Rockwell, Jr.
Publisher's Note

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Volume 14, Number 2, Summer 2000

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PUBLISHER'S NOTE

The Mises Institute is honored to be taking over the publication of *The Journal of Libertarian Studies*, one of the most important scholarly journals to appear in the history of ideas. In a market too often dominated by conventional wisdom, academic log-rolling, and risk-averse research with no practical application, the *JLS*, from its inception in 1977, has been committed to providing an outlet for cutting-edge thought that engages the world we live in. The table of contents of back issues is the best proof.

Its first issue appeared at a time when Robert Nozick's *Anarchy, State, and Utopia* was considered the defining limit of libertarian thought. But the *JLS* featured a number of pieces arguing that Nozick had made unacceptable and unjustifiable compromises with statist ideology; he had imagined the possibility of a limited state, when no such thing is possible, as rigorous theory and centuries of history have shown.

Holding out the ideal of the stateless society based on private property and freedom of contract has always been the very soul of this journal. But that is by no means its only purpose. The animating concern has been to uphold scientific integrity above all else, which means that a line of thought must be followed through to its logical conclusions, no matter how much those conclusions may contradict received opinion. It also means revisiting the historical evidence with an eye toward truth-telling about the development of ideas and the depredations of statism in all its many manifestations. Only this mode of argument holds out the possibility of shifting academic and public opinion toward liberty.

The success of the *JLS* was made possible by the visionary genius of Murray N. Rothbard, who inspired several generations of scholars—in economics, history, politics, philosophy, and law—to turn their attention to the problems of statism and the celebration of human liberty. It was Rothbard who first conceived of a fully

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integrated science of liberty that would unite the traditions of the Austrian School of economics and Thomistic natural law with a radicalized version of classical liberalism into a workable and compelling whole. The ideals he upheld attracted the young and caused intellectual energies to be unleashed in untold numbers of scholars—the results of which can be seen so clearly in the archives of the *JLS* at www.mises.org/jlsdisplay.asp.

I cannot exaggerate the thrill of the day the archives first appeared, now available at the click of a mouse to anyone in the world. Often I thought of Murray laboring so hard to produce this journal with no support from the academic establishment, doing his best, with little funding, to put out an expensive journal in a time when technology required that it be done the old-fashioned way: typewriters, the mails, pen-and-ink edits, and Linotype machines. He enjoyed no guaranteed distribution and had to rely on tireless promotion among the friends of liberty in America and abroad. He never stopped to wonder whether his efforts would pay off, for he had boundless confidence in the power of ideas—even when advanced in a small circle—to change the world.

The Center for Libertarian Studies, under the leadership of Burton S. Blumert, provided the framework. But CLS operated on a shoestring budget and it was quite often the case that printers and mail houses had to be paid out of Burt's own pocket. But he, like all of us, had been infected by Murray's boundless optimism and faith in ideas; we had no assurances that we would change the course of history by pursuing this kind of research, but we did know that the prospects for liberty would be seriously diminished if we did not do the necessary work. Once copies of the journal were shipped, we could only wait and hope that the ideas would be picked up by a handful of students who would gravitate toward the tradition of thought the *JLS* represented.

That did indeed happen, but there was one discouraging dimension to the job. We knew there were students and young faculty all over the world who would benefit immensely from back issues of the journal, but who did not have access to them. Burt did his best to keep them circulating on a subscription basis and to send back issues on request. But, in time, his stock ran out and it seemed that some of this important research would end up dying on the vine. In 1999, however, web technology had advanced to

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the point that we could make all back issues available, and suddenly it didn't matter that the largest research libraries didn't subscribe or were missing issues.

Availability became instant and universal. How thrilled Murray would have been to see it! And yet, even without seeing his written legacy come back to life, he died knowing that it was in good hands. For the decade before his passing, Rothbard had been teaching with a brilliant young economist and philosopher at the University of Nevada, Las Vegas, who became a Rothbardian while doing his Ph.D. work in Germany. Hans-Hermann Hoppe appeared in America in the mid-1980s, and quickly published his treatise, *A Theory of Socialism and Capitalism*, the first full-scale comparative systems text from an Austrian perspective. What followed—a series of innovative pieces on economic theory, ethics, and politics—quickly established him as a leading Austro-libertarian thinker, not only in America but around the world.

But Hoppe is not only an innovative thinker in his own right, but one who, like Rothbard, seeks to cultivate younger scholars. Therefore, he is the ideal editor to continue the work of *The Journal of Libertarian Studies.*

And though the journal is coming up on its 25th anniversary, I feel confident in saying that its best years are ahead. The journal has never felt itself encumbered by prevailing opinion, but today's intellectual environment—which offers far more possibilities for scholarship in a radical tradition—is much more suited to the Rothbardian project. We can look forward to the full flowering of the world's most exciting journal of liberty.

Llewellyn H. Rockwell, Jr.

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A *LAISSEZ-FAIRE* FABLE OF THE CZECH REPUBLIC

by Josef Sima and Dan Stastny*

The worst thing that can happen to a good cause is, not to be skillfully attacked, but to be ineptly defended.

— *Frédéric Bastiat*

For decades, there has been a thorough worldwide discussion whether intellectuals are enemies of liberty. A central position in this discussion belongs to Hayek's classic article "Intellectuals and Socialism."[1] There is no doubt that the majority of intellectuals are strongly attracted to the sphere of politics, where they can make use of their fluent knowledge of diverse topics and become successful "second-hand dealers in ideas." In every step of their political career, they work hard at their ultimate good-doer image, contemplating everyone's problems, spending other people's money, helping the poor, old, disabled, sick, young, etc., wasting money in subsidizing theater, public TV and radio, alternative cultures, coal mining, internet connections, fat-free food, and so forth.

The current intellectual climate resulting from the development in academia is probably responsible for the fact that not many who see these thousands of kinds of governmental interference with the lives of millions consider them to be bad or immoral. However tragic and dangerous this situation is, it is simply the current state of affairs, and people are accustomed to it. This development is possible because of the softer methods of state regulations that politicians use, a great deal of sophisticatedly spread camouflage, and the intellectual appeal which these political intervention-

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[1]F.A. Hayek, "Intellectuals and Socialism," *University of Chicago Law Review* 16, no. 3 (Spring 1949).

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ist measures have for so many people. This sort of creeping socialism is accepted by the majority because the attack is not directly targeted at their lives and liberties, and does not yet go as far as many experienced under the communists, when nearly all were fed up with omnipresent governmental terror. And if not accepted outright, it is, at the very least, simply taken as a given.

If one then sees a politician who does not spend a minute talking about welfare programs, subsidies, or guaranteed standards of quality, but raises issues such as the meaning of liberty and free markets, de-etatization and privatization, one is truly astonished and stands still staring at him as if he is from another planet. This is exactly the situation that occurred in the Czech Republic at the beginning of the 1990s.

After several decades of politics performed by Moscow-educated politicians mostly in their late 60s or 70s, we got a charismatic and fairly young politician capable of speaking numerous foreign languages and, more importantly, continually quoting Mises, Hayek, Friedman, Buchanan and the like,[2] and talking about free markets all the time.

Of course, we are talking about Václav Klaus.

It is the task of this paper, therefore, to describe what can happen to "a good cause" when it is "ineptly defended," and to address the problem of the relationship between a verbal free-market support and advocacy in general on one hand, and practical political statements and policy measures adopted by these rhetorically free-market politicians on the other. All this will be grounded in the experience of the people of the Czech Republic after the *annus mirabilis* of 1989, so the real examples from the development since 1990 will provide the analysis with some empirical evidence.

VÁCLAV KLAUS: A MASTER OF RHETORIC *HEY PEOPLE, I KNOW THE RIGHT WAY!*

The model for our analysis, Václav Klaus, emerged on the political scene right after the collapse of communism in 1989. He took a post as a Minister of Finance in the first non-communist government in December 1989, where he gradually became recognized

[2]At that time, the majority of Czechs—including the authors of this paper—had no idea who these people were.

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as the foremost creator of the economic transition program. After the 1992 elections, which he won with flying colors as a leader of the winning Civic Democratic party, he became Prime Minister. He remained in this position until December 1997. After the most recent Czech elections, in June 1999, his party struck a deal with the Social Democrats, trading his support of the socialist government for the post of Chairman of the Chamber of Deputies.

He had a tremendous influence in shaping governmental policies the entire period. His imprints can be traced back to the beginning of the post-communist times. Sounding more like a quotation from Adam Smith than an excerpt from a government document, Klaus declared "Only the market system is capable of safeguarding economic rationality. By following his own interests, the individual can most contribute to the welfare of other individuals."[3]

Klaus was a new personality not connected to any previous political *nomenklatura*. Under the communists, Klaus was generally not allowed to pursue his academic career. However, he was allowed to spend a semester or two studying in the United States, which was very unusual. In the 1960s, he could work more publicly, even being allowed to translate parts of the famous socialist calculation debate. Then, after the Russian invasion, it all ended.

A bit later, he started his "private seminars" on economic and social problems. (It seems that his inspiration by Ludwig von Mises was almost total.) Many government members and other officials of the transformation era were connected to these circles, sometimes unofficially referred to as "Klaus's group." Some of them would call themselves Austrians, and one of them (not Klaus, who for once correctly opposed it) later urged and succeeded in creating a Czech version of the American Securities and Exchange Commission, and called for severe regulation of this field.

At the beginning of the 1990s, Klaus came back in full parade. He became the first East European member of the Mont Pelerin Society. He succeeded in putting through a decisive privatization program, substantially deregulated prices by the stroke of a pen and, most importantly, explained repeatedly how markets worked. It was he who most forcibly introduced free-market theorists such

[3]Václav Klaus, *A Road to Market Economy* (Prague: Top Agency, 1991), p. 10.

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as Hayek and Friedman to the general public. And it was precisely Klaus's emphasis on the free market that may have attracted many young students to the study of economics.

Moreover, some of these students went so far as to familiarize themselves with Austrian economics, a few of whom studied theorists all the way to Murray Rothbard. After all, what Klaus was saying made so much sense. Klaus was truly a part of an endangered species—a top politician publicly advocating free markets in the Austrian fashion. That was one of the reasons why many American (and other) libertarians liked him, and still like him so much.[4]

This is a small sample of what Klaus said or wrote elsewhere. (Remember that it was at the beginning of the 1990s.)

> The only practical and realistic way to the improvement of the living standard will be to abolish totally the institutions of central planning, to dismantle control over prices, wages, the exchange rate, and foreign trade, and to radically transform the existing system of property rights.[5]

Or,

> Thanks to these [Austrian-school] insights we have in the Czech Republic never toyed with hybrid systems and "Third Ways" of various designs.[6]

Or,

> The third way is the fastest way to get into the Third World.[7]

Or,

> Our choice is a market economy without any complicating and obfuscating adjective added to the word market.[8]

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[4]We believe that the more that Americans and others learn about Klaus, the less they will be impressed with him.

[5]Klaus, *A Road to Market Economy*, p. 41.

[6]Václav Klaus, "The Austrian School: Its Significance for the Transformation Process," in Hardy Bouillon, ed., *Libertarians and Liberalism: Essays in Honour of Gerard Radnitzky* (Aldershot, England: Avesbury, 1996), p. 256.

[7]Klaus, *A Road to Market Economy*, p. 18.

[8]Klaus, *A Road to Market Economy*, p. 12.

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Or consider Klaus's statement, which Roger Douglas later picked as a motto for his book *Unfinished Business*:

> We need an unconstrained, unrestricted, full-fledged, unspoiled market economy, and we need it now. . . . The basic economic laws are valid across continents, economic systems, as well as ideological beliefs.[9]

That was a revolution in thinking. No one had ever heard that before from any politician, and many people had *never* thought that way. When we later found Mises's works, such as his essay "Middle-of-the-Road Policy Leads to Socialism," it was nothing new for us. We did not need to read Mises; it was all in *Klaus*. (Here we would like to warn readers not to get too excited since, unfortunately, once one looks at the implementation of Klaus's statements, e.g., at the fashion his "market economy without any adjectives" was put into practice, every sign of excitement must necessarily disappear altogether.)

Klaus was excellent at formulating clear political visions using fetching vocabulary, common-sense examples, and logic. Another of his theoretical insights—which must have surely played an extremely important role especially when the government, under his premiership, nationalized private property of "mere" individuals—is an admirable one:

> I have grasped that there is no such thing as a "public" interest.[10]

It sounded so *sonnenklar*—no special tasks and functions for state bureaucrats. In addition to the fact that the coercion they exercised is bad and immoral *per se*, we were told that they would not perform their allegedly appropriate tasks anyway, since they act in accordance with their own private interests. One does not need to be familiar with any other sophisticated theory of government if one only grasped this insight: there are only private interests, articulated by acting people, living independent lives, owning their private property, and pursuing their respective goals. There is nothing above them; there is no other authority that can justly claim

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[9]Roger Douglas, *Unfinished Business* (New Zealand: Random House, 1993), p. 1.

[10]Petr Junglich, Tomás Koudela, and Petr Zantovsky, *Tak pravil Václav Klaus* (Praha: Votobia, 1998), p. 138.

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that its interests are paramount. Again, unfortunately, the opportunity to spread this idea among the masses was eventually missed.

In citing other Klaus statements, we would like to show that he quite honestly followed (or, at least, he seemed to follow) this reasoning, and applied it to a number of particular problems. Even his less general views are perfectly compatible with the picture of society based on private property, that is, on individuals responsible for their own good without any state official in the position to take over this responsibility. Thus, Klaus claims:

> One argument [against industrial policy] is the theoretical one, that the government cannot do it, that the government does not have the motivation to do it. But I have an additional argument. Being in the government for five years, I have been forced to do something like industrial policy every day, and I can say . . . that I know that industrial policy is impossible. Not only [is it] incorrect or irrational or not optimal. I know how hopeless it is to sit down in my office and to try to decide anything about any industry. It is a hopeless task, a debate which has no structure, no meaning, no substance, it is wrong *a priori*. I am very much against all forms of industrial policy.[11]

By and large, as judged by Klaus's verbal statements and rhetorical skills, he was great—clear, concise, consistent, and, most importantly, *right*. He was one of the few people who seemed to have a clear idea of how society works and what the economic rationale behind the free market is. When he talked about his visit to an American university some years ago, he claimed:

> From the very beginning, I belonged to the extreme right, for our experience was so evident that I have always refused any flirting with the socialists of different stripes.[12]

He was just about to become a libertarian star. Libertarians all around the world started quoting him. The Foundation for Economic Education had him endorse Bastiat's *The Law*. His books and articles, and interviews with him, got published in the United States. The Cato Institute published Klaus's book *Renaissance: The*

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[11]From a panel discussion with Gary Becker in Ján Pavlík, ed., *Gary Becker in Prague* (Prague: Liberální Institut, 1995), p. 44.

[12]Junglich et al., *Tak pravil Václav Klaus*, p. 10.

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Rebirth of Liberty in the Heart of Europe. In the preface, Cato president Tom Palmer celebrated Klaus with little proof in the real facts:

> Without a doubt, the most successful leader of a post-communist nation in Europe, . . . [whose] leadership and vision have transformed [the state] . . . into the most bustling, vibrant and open society in the region, in some ways surpassing even the long-established Western democracies neighboring it.[13]

French libertarians keep referring to Klaus as the "auteur du miracle tchèque."[14] One of his essays is a part of *Libertarians and Liberalism: Essays in Honour of Gerard Radnitzky*, and bears the title "The Austrian School: Its Significance for the Transformation Process." Klaus is mentioned here side by side with people such as Hans-Hermann Hoppe, Walter Block, Arthur Seldon, and Lord Harris. Klaus's free-market camouflage and his "creative semantics" were so monstrous and so well done that even Rothbard states that:

> Except for the Czech Republic, where feisty free-market economist and Prime Minister Václav Klaus was able to drive through rapid change to a genuine free market, . . . the reformers were too nice, too eager for "reconciliation," too slow and cautious. The result was quasi-disastrous.[15]

Klaus's seemingly fundamental views were (along with his often terribly arrogant behavior) the reason why he attracted so much resentment, not only among other intellectuals, but even among fellow economists. One story serves to illustrate this. In 1990, various Czech economists (mostly Keynesians) who had fled the country under communism came back to teach the government what to do. It is rumored that Klaus would often call these economists (quite correctly) socialists, and would refuse to take them seriously. Of course, that infuriated them, and they have hated him ever since. Moreover, he did the same to IMF specialists, reput-

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[13]Tom Palmer, "Preface," to Václav Klaus, *Renaissance: The Rebirth of Liberty in the Heart of Europe* (Washington, D.C.: Cato Institute, 1997), p. xi.

[14]e.g., la nouvelle lettre, No. 552/1998, p. 3.

[15]Murray N. Rothbard, *Making Economic Sense* (Auburn, Alabama: Ludwig von Mises Institute, 1996), p. 396.

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edly telling them, "We don't need any of your soft advice for hard currency."

Different sorts of people ceased supporting Klaus as they were turned down while seeking government funding. He informed the members in the Academia of Science that they should forget about the taxpayers' money for research. He kicked out the big business bosses when they asked for a "clearly defined" industrial policy and even larger subsidies than they were already receiving.

One has to remember this "extreme" image, which Klaus adopted and which was soon attributed to him by many journalists as well as the public in general. Such a perception of Klaus created a tremendous obstacle for other free-market supporters who dared not disagree with, let alone outright criticize, him, because there was no longer a place for someone more free-market oriented.

VÁCLAV KLAUS: THE AUSTRIAN SCHOOL'S SAVIOR?
WHO ELSE IF NOT ME?

Klaus was the man who brought the Austrian School to the evening news, so to speak.[16] He had read Menger, Böhm-Bawerk, Mises, Hayek, and other Austrian economists, he lectured and wrote articles about them, and he did it well. He was happy to be associated with these celebrated economists, even though their list would regularly shrink to only Friedman and Hayek. He publicly admitted that he was proud to be called a Friedmanite or a Thatcherite, and, from time to time, journalists would even dub him "Milton Klaus." Klaus himself, however, acknowledges that he was primarily inspired by the Austrians. He claims:

> Hayek as an economist, ideologist, philosopher and methodologist was a source of thinking of all those who refuse in today's Czechoslovakia not only socialism, but also constructivism based on the ambitions of technocrats and left-wing intellectuals and leading toward a new dictatorship of state over the individual.[17]

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[16]Actually, it was not only the Austrian School, but also the Chicago School, the Public Choice School, and, interestingly enough, Paul Samuelson's *Economics*. This will be addressed later.

[17]Klaus's speech at *The 1997 Annual Hayek Memorial Lecture* at the Institute of Economic Affairs in London, June 17, 1997.

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No matter how great his admiration of Hayek, his true eye-opener, Klaus confessed, was the great Ludwig von Mises:

> Hayek had a great influence on me. However, I think that I learned the most from Mises's *Human Action*, and that has been true up to now.[18]

How many world politicians can say that they were influenced by Mises, and that even now they are indebted to him for their intellectual inspiration? How many politicians even know his name, let alone studying him? Incredibly enough, Klaus went so far as to claim, in this "humble" fashion so peculiar to him, that:

> if the Austrian School is about to die out in Austria, we in Prague will keep it alive![19]

We wish it were true that he kept the Austrian School alive, but, as will be shown shortly, that is not what really happened.

Speaking of Mises, we can now shock you with some of Klaus's other comments which are no less amazing, particularly when one realizes they came from the mouth of a prime minister:

> We believe more in "human action" rather than in "human design."[20]

Or:

> There is a clear and growing understanding that the market is not an instrument in the experienced hands of the central planners, and that the unconstrained invisible hand of the market is more efficient in allocating scarce resources than the visible hand of the central planners.[21]

We could hardly believe that there could be a politician capable of saying "unconstrained invisible hand of the market." Mises's central idea—unhampered free market—was here supported by an influential politician. Moreover, the people of the Czech Republic were, at the beginning of the reform period, ready for just about anything. They would agree to whatever would take

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[18]Junglich et al., *Tak pravil Václav Klaus*, p. 133.

[19]Klaus's speech at *The 1997 Annual Hayek Memorial Lecture.*

[20]Klaus, *A Road to Market Economy*, p. 10.

[21]Klaus, *A Road to Market Economy*, p. 14.

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them as far from socialism as possible. As an "Austrian reformer," one cannot wish for more. It looked so promising.

Of course, it was naive to expect that it could all be true. Already, then, we should have anticipated a disaster in the making. For if someone truly believes in the "unconstrained invisible hand of the market," he must be either a decent man—which effectively means committing political suicide—or simply a liar.

It later turned out that all of these free-market quotations from Klaus's speeches and writings present different sorts of camouflage which made us forget the basic Misesian insight that:

> a liberal government is a *contradictio in adjecto*. Government must be forced into adopting liberalism by the . . . people; that they could voluntarily become liberal is not to be expected.[22]

Or the Rothbardian insight that the State—the government—is:

> the supreme, the eternal, the best organized aggressor against the persons and property of the mass of the public. All states everywhere, whether democratic, dictatorial, or monarchical, whether red, white, blue, or brown.[23]

A Pragmatic, non-Ideological Policy
Forget about the Austrian School; Hard Work for the Sake of the State is Needed

It is now time to stop this so far rather glorifying description. In the course of time, we heard more and more often that the government had a special role to play in bringing the free market back to the core of society and the economy. That may be perfectly true, but the *conditio sine qua non* is that one must keep working toward the free-market ideal, and quickly. At the beginning, it went reasonably well: the majority of prices were deregulated overnight, the exchange control was relieved to a certain extent, the ambitious mass-privatization scheme was launched and became a blueprint for other formerly communist states, property restitution took

[22]Ludwig von Mises, *Liberalism* (San Francisco: Cobden Press, 1985), p. 68.

[23]Murray N. Rothbard, *For a New Liberty* (San Francisco: Fox & Wilkes, 1978), revised edition.

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place, and the stolen property went back to the hands of its original owners. Though it was not a one-day plan, as was suggested elsewhere,[24] the important thing was that it was at least aimed at the desirable end. However, it is necessary to point out that a "special role for government in the transformation period" brings about a substantial danger for the success of the whole de-socialization process. And, unfortunately, that is exactly what happened in the Czech Republic. Despite the fact that, rhetorically, Klaus was still mostly pro-free market, more and more often one heard such statements as:

> [these] "katheder", textbook so-called-right-wingers . . . don't understand that real politics is something else than screaming out loud the elementary textbook truths, that it is trivial to say deregulation, privatization, and liberalization.[25]

We pause at this point to make an important note. It is not the purpose of our paper to tell you how poorly the transformation of the Czech economy from the morass of communism toward the free-market economy was executed. Rather, we want to show that the Austrian methodological approach to it and the rhetoric employed did not correspond to what was done in reality, i.e., that this "Austrian rhetoric" was never put into practice. In doing so, one soon encounters the question of what is and is not "Austrian." Unfortunately, there were numerous instances when some Austrians—led particularly by Hayek—suffered from this or that degree of inconsistency. For example, when Hayek claims that:

> A conviction that an open market is *per se* the most desirable condition is of course far from an assertion that the immediate abolition of rent control as things are is the most effective method of achieving it,[26]

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[24]Murray N. Rothbard, "How and How Not to de-socialize," *The Logic of Action* (Cheltenham, U.K.: Edward Elgar, 1997), vol. 2, pp. 200–17; Hans-Hermann Hoppe, "On the Law and Economics of Socialism and De-socialization," *Cultural Dynamism* 8, no. 8 (November 1996).

[25]Junglich, et al., *Tak pravil Václav Klaus*, p. 24. In fact, to this day, Klaus routinely delivers excellent free-market oriented speeches.

[26]F.A. Hayek, "The Repercussions of Rent Restrictions," in Walter Block, ed., *Rent Control: Myth and Realities* (Vancouver, B.C.: Fraser Institute, 1981), p. 183.

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and when he talks about undesirable consequences such as "disorganized market" and "grotesque level of rents," which allegedly imply the need of price ceilings, we wonder whether the current state of rent control in the Czech Republic (ten years after communism ended) may not be justified by this peculiar kind of "Austrian logic." In that case, our labor unions, tenants unions, social democrats, and others must all be Austrian School libertarians, since their arguments exactly echo Hayek.

Once a principle is compromised, once a "third way" is chosen, then the difference between free-market supporters and modern social democrats might boil down only to the question of whether two months, two years, or twenty years of "transitory" rent control is a period long enough to let the economy adjust. However, this is not a clear-cut distinction between contradictory schools of thought or opposing methodological approaches.[27]

With this in mind, we can claim that Klaus's statements about "katheder" right-wingers and the complexity of politics are signs of creeping "practical considerations" or social democratic-technocratic-etatist elements on the road to the free-market economy. It is not necessary to follow every single political measure day after day that has brought us from the very promising start-up to the present state which might be termed "the welfare state without a grain of welfare." To see the true results of the so-called "shock therapy," it is enough to describe the current state of affairs. Of course, our arguments have nothing whatsoever to do with the traditional critique of this period based on popular statistics such as

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[27]There are many other concessions to "practical considerations" or inconsistencies in Hayek. Despite his popularity as an Austrian scholar, when one takes into account his meddling with the concept of the minimum guaranteed income, minimum wage law, state social insurance and health-care system, state limits of working hours, and anti-trust legislation, one must recognize that these state-interventionist measures are strictly opposed to the essence of Austrian economics. As such, while talking about and making comparison to the Austrian view, we will stick to Austrianism with a consistent, radical *laissez-faire* flavor. On Hayek, see Walter Block, "Hayek's Road to Serfdom," *Journal of Libertarian Studies* 12, no. 2 (Fall 1996); and Hans-Hermann Hoppe, "F.A. Hayek on Government and Social Evolution: a Critique," *Review of Austrian Economics* 7, no. 7 (1994).

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GDP, balance of payment deficits and its various fractions, or unemployment. Instead, our criticism is directed at the assaults led by Klaus's government on the very substance of the capitalist system—private property.

We do not claim that all socialist measures adopted by the Klaus-led Czech governments must necessarily be attributed to and blamed on him. First, however, the general public usually draws the association that actions taken by Klaus's government are of his doing—hence, the popular notion that any step that Klaus's government took was strictly in accordance with the now-hated liberalism (libertarianism). Second, he never appeared before the public and declared that any particular action contradicted his beliefs and principles, or that only because of his political rivals had such-and-such regulation, tax, or other measure been adopted. And though Klaus now claims that his basic mistake was that he was too loyal to the government he served in, one of Mises's deep insights comes to mind in this respect.

> Nothing can serve as a substitute for an ideology that enhances human life by fostering social cooperation—least of all lies, whether they be called "tactics," "diplomacy," or "compromise."[28]

Now, let us add some real-life experience to illustrate what the great Klaus actually did as a Prime Minister and can thus be held responsible. (We list only the most striking cases.)

Rent Control

As ownership of apartment houses was returned to the original landlords, the Czech "Austrians" led by Klaus were quick to "properly secure" the property rights of the owners by imposing severe rent control over previously inhabited apartments. Such tenants were given a "right to an apartment" that could be extended to any family member in the future who simply claimed that he/she lived in that place. This pseudo-right could expire only by its voluntary surrender by the tenant (an extremely stupid tenant) or his/her death provided, that the apartment had not been transferred previously to another family member.

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[28]Mises, *Liberalism*, p. 156.

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Owners of such control-stricken property have nevertheless been compelled by law to keep their property in shape (no matter how much it costs), so that the tenants' "rights" cannot be jeopardized. Thus, there is little wonder that there has been pressure upon the government, not only by the "katheder" right-wing economists, to deregulate this field.

When chided by Gary Becker for still having a rent control in place, Klaus replied:

> You [had] the rent controls [in New York City for] fifty years, we have [had] them five years, . . . so we still have 45 years to be faster than you.[29]

Klaus later rebutted Becker's criticism of the rent control by saying that:

> Well, I am ready to admit that Gary Becker is a stronger opponent of residual rent control than me, but I can assure you that I am a stronger opponent of industrial policy than anyone,[30]

thus making Becker look like a GDP-growth maniac.

Rent ceilings are raised annually to catch up with inflation. However, even now, they are no more than a third of what they are on the unregulated market. In Prague, the rents on the unregulated market are several times higher than the rent ceilings, which suggests heavy compulsory transfers from certain landlords to certain tenants.[31]

Draft

Klaus trumpeted all over the world how much he cared about liberty. He often attacked social democrats' planks, pointing out that they do not cherish individual freedom, and that they would like to foist different kinds of coercion upon the citizenry. However, one week after one such exposé of his, he publicly endorsed the military draft.

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[29]Pavlík, *Gary Becker in Prague*, p. 44.

[30]Pavlík, *Gary Becker in Prague*, p. 46.

[31]We have been repeatedly assured that a faster deregulation scheme was prepared and endorsed by different government members, and that it was always Klaus who stopped it.

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> I do consider the compulsory military draft a basic duty of every young man that he is supposed to do for his country. I frown upon all those who tend to avoid this military service.[32]

While Klaus sometimes portrays himself as one of the greatest libertarians ever, we see here, with Klaus sounding like a communist newsboard from the cold-war era, that he shows few symptoms of even being infected with anything close to libertarianism.

Telecom Monopoly

The telecommunication industry is still, after more than ten years, heavily monopolized—the provision of phone services has been and still is reserved almost exclusively to a single company.[33] Once, when asked what he thought about the Telecom monopoly—whether it should be abolished or not—Klaus shrugged his shoulders and uttered:

> I simply don't know anything about Telecom. Now it seems to me that everyone in this country is an expert on Telecom. . . . For me, it belongs to the sphere of the industrial policy. . . . It is not a real issue to privatize or not privatize [it]. . . . To de-monopolize it or not is a partial issue which can increase social welfare by one percent to the better or one percent to the worse. . . . [Privatization of Telecom] is a special case, it is definitely a post-transformation task. It is not a part of the systemic change from communism into a free society and market economy. It can be done at any moment at any time. . . . It has no connection whatsoever with the general functioning of this country.[34]

Václav Klaus, our great Austrian, is even trying to measure the percentage changes in "social welfare." Further, he admits that the people could actually be better off with the Telecom monopolized, i.e., when they are forbidden to choose. He claims not to know whether the government should or should not confer an exclusive right to provide certain services to a single company, and prohibit

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[32]*MF Dnes* (April 4, 1998), Q&A Section, p. 4.

[33]Ironically, the Telecom monopoly will be abolished in 2001, largely under the pressure of the European Union.

[34]Pavlik, *Gary Becker in Prague*, p. 50.

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doing so to everyone else. It is of no importance to him; it probably depends!

Samuelson's Economics

Incredible as it may sound, after the glorification of Klaus in the first part of this paper, it was Klaus who brought Paul Samuelson's famous public-lighthouses-and-successes-of-the-Soviet-block-preaching textbook (which, incidentally, lists Hayek under Chicago School rubric)[35] to virtually all Czech universities, colleges, and even high schools. He wrote an acknowledgment to it in which he maintained that the only thing missing from that "great" textbook was a chapter on the economic transformation. One can only wonder why, in 1990, when there was no economic textbook that did not start and end with Marxism, and when Czech academics, with Klaus having the upper hand among them, were searching for a "market-economy" text, they picked Samuelson's *Economics* out of all the books available. Why didn't Klaus put through *Human Action* if he liked it so much?

To emphasize how unexpected his choice was, let us briefly summarize all economists (or economic schools) that Klaus, besides being an Austrian, of course, endorses. As mentioned above, he acknowledged that Mises had contributed most to his way of thinking. On another occasion, he confessed that he had always been proud when people had pigeonholed him as a Friedmanite. Every once in a while, he would also laudably mention the Public Choicers. Putting together the Austrian, Chicago, and Virginia Schools makes some sense. But then libertarian Klaus says:

> We have been looking forward to this moment [publishing Samuelson's *Economics*] for many decades. . . . I believe that studying it will become an inception of the renaissance of economics in our country. . . .
>
> It is a smart as well as precise book, it is readable as well as making one think, it wants to be read and contemplated. . . .

[35]For criticism of Samuelson's *Economics* see Mark Skousen, "The Perseverance of Paul Samuelson's *Economics*," *Journal of Economic Perspectives* 11, no. 2 (Spring 1997): 137–52; also Rothbard, "Paul Samuelson's *Economics*, Ninth Edition," in *Logic of Action*, vol. 2.

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> I wish the book pleased and taught every reader, every beginning student, every advanced economist, really everyone who takes it into his hands, as much as it did [please and teach me]. I found it necessary to get back to this book (its newest edition) at least once in a decade. Even though I often used to think that I was already supposed to know everything, I always learned a lot of new stuff. I believe that this book will become a breakthrough in our university economic education.[36]

One can only wonder what that is supposed to mean. It should be clear that endorsing all of the above schools (starting with the Austrians) and Samuelson's hard-core mainstream is, for anyone who is at least roughly familiar with economic theory, rather a sign of schizophrenia, or, at least, of utter inconsistency.

If one takes into account Klaus's sympathy for such a textbook, then one should not be surprised by what Klaus was doing in reality. Still, Samuelson's *Economics* suffices in teaching the students that rent control is "bad" (of course, Samuelson is *wertfrei* and says it is somehow "inefficient" rather than bad). Klaus must have accidentally skipped these chapters.

EU and NATO

Klaus adopted the completely un-libertarian approach, which is basically indistinguishable from a hard-core statist view of fellow European politicians, of favoring supra-national bodies, namely the EU and NATO. Despite the fact that these organizations epitomize welfare-warfare states, and despite his frequent criticism of the most striking examples of EU absurdities (e.g., a common agricultural policy), he has always maintained that Czech membership in both is indispensable for our safe and successful future. It soon became a goal not to be doubted. Klaus was thus one of the people who effectively brought the whole nation to the doors of these interventionist structures (NATO, in particular; not so much the EU, whose own enormous red-tape machinery will hopefully prevent the Czech Republic from joining it).

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[36]Václav Klaus, "Forward" to Paul Samuelson and William Nordhaus, *Ekonomie* (Prague: Svoboda, 1991), pp. iii, iv.

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Endorsing Injustice

Klaus's political "prudence" has brought him to implicitly endorse the communist solution to the problem of a population unwilling to accept the rules of its ruler. At the end of World War II, there was a near-total expropriation of the property of Sudetengermans, accompanied by their expulsion from Czechoslovakia. None of the stolen property was given back to the original owners, who were not even allowed to buy their own (or any other) immovable in their former country after 1989, since no foreigners were allowed to do so without state permission.

Klaus's notion of a solid line in history to separate property titles that can be scrutinized from those that cannot—a line drawn at February 25, 1948, the day the communists took power—really came in handy. It proved to be a convenient tool to avoid dealing not only with the above-mentioned case of Sudetengermans, but also with numerous cases of pre-1948 nationalization, particularly in the 1945–1948 period. The government nationalized even private property that belonged to Czechs, starting with certain types of business (mines, banks, etc.), and, later, most companies with more than 150 employees. None of this has become subject to a restitution scheme. Such injustice cannot simply be undone by virtue of the fact that it falls into a "different category," and apologetically insisting that a line must be drawn "somewhere."

Foreign Bank Accounts

Even now, almost a decade after the fall of communism, citizens of the Czech Republic are not allowed to own (without state permission) a bank account abroad, allegedly to protect local banks (which are, incidentally, mostly state owned—an infant industry case, indeed). There is nothing more to say about this absurd regulation, except to tell the story that swept Klaus from his post as Prime Minister.

Klaus and his party allegedly held foreign bank accounts in Switzerland. We could speculate at length about the purposes for which these accounts were set up, but the more important thing is that their very existence was illegal and punishable as a criminal activity—according to the laws that Klaus himself, at least tacitly, endorsed.

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Miscellaneous

In addition to the previous examples, there were numerous other instances in which Klaus said something amusing. One time, he accused foreign retail chains of predatory pricing, and warned that unless "something was done about it," the Czech stores would be driven out of business.

Another time, he publicly denounced and stigmatized the banking sector for being interested only in their marble palaces and for not doing enough for Czech industry. Of course, he may well have been correct, since most banks are government-owned, granting loans mostly to state or government-subsidized enterprises. On top of this, in 1998, Klaus declared that not privatizing the banking sector was not "a mistake" he would regret, but a part of the transformation strategy. The reason behind it was the danger that banks, if privatized, would care about their own profits only, and would not serve the needs of the transforming economy sufficiently.[37]

Klaus also got involved in "leveling the playing field" in the beer business. His government granted special "easy" tax rates to minor breweries in order, we gather, to keep the market competitive. One might argue that he did so in order to create new "loopholes" and thereby begin eradicating the whole redistributive system, but such an argument seems pretty far-fetched. In any case, the problem with this is not a smaller state budget (which would be fine with us), but the fact that people understood it as an effort to help the "small and weak" in their battle against the "big and mighty," and as a part of *laissez-faire* policy.

In a critique of Hayek, Hoppe claims that one difference between Hayek and modern social democrats boils down to the question of whether to privatize the postal service, to which Hayek would likely say yes. [38] In the Czech Republic, there has not been a

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[37]Perhaps this was another sophisticated transformation maneuver which will nicely fit to Samuelson's blank chapter on turning planned economies into genuine free-market ones. We don't doubt that Klaus would "humbly" volunteer to write that chapter for Samuelson.

[38]Hans-Hermann Hoppe, "F.A. Hayek on Government and Social Evolution: A Critique," *Review of Austrian Economics* 7, no. 1 (1994): 67–93.

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single word issued about de-monopolization and deregulation of such businesses within the whole ten years.[39]

In 1997, on the day Milton Friedman spoke at the Annual Lecture of the Liberální Institut, talking about dismantling regulations and protectionism, Klaus announced the government's determination to fight the balance-of-trade deficit by instituting compulsory import deposits. We doubt Friedman would slap Klaus's back, saying that, under certain circumstances, this kind of a substitute for outright protectionism can be justified on liberal grounds as he —Friedman—in some different instances, claims.[40]

We will only mention briefly some of the other grave flaws in Klaus's "radical reform." His party advocated heavy taxicab regulation in Prague, and justified it on the grounds of information asymmetry and "a special kind of entrepreneurial activity" which serves a broadly defined public interest. On another account, it recently joined forces with social democrats to put through a ban on all lotteries, including marketing ones (the "send-a-coupon-and-we'll-send-you-a-T-shirt" kind), conducted by foreign companies. Education is still completely state-controlled (there is not a single private university in the whole country), and public TV and radio are still financed by compulsory contributions which have to be paid even when one has a PC sound-card and never uses it for listening to the radio. Klaus nurtured the most powerful unions imaginable—the railway unions rule over the whole state-owned dinosaur. Omnipresent licensing and "quality control" hampers the free market and imposes an enormous burden on entrepreneurs.

CONCLUSION

Contrary to what many foreign observers believe, Václav Klaus is not the right example of the politician, whose approach:

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[39]It is too bad that Klaus was not at least a Hayekian, as he had claimed.

[40]Consider, for instance, one of Friedman's particularly amusing rationalizations: "The appropriate free market arrangement is volunteer military forces, i.e., hiring men to serve. . . . Present arrangements . . . seriously interfere with the freedom of young men. . . . (Universal military training to provide a reserve for war time *is a different problem and may be justified on liberal grounds*.)" (Italics added). Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1982), p. 36.

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> should provide inspiration for citizens in contemporary welfare states . . . about how to begin to undo the disaster of welfare statism.[41]

The "remarkable success" or "normal society" to which Klaus brought the Czechs, as Palmer mentions in the text, is not the one based on "private property," "freedom of exchange, individual rights, and the rule of law,"[42] but is a "regular" private-property-attacking, freedom-of-exchange-restricting, individual-rights-violating and legislation-stock-piling, EU-style welfare state. (Of course, being a welfare state at this point will prevent the Czechs from achieving the EU standard of living!)

We do not claim that Václav Klaus is any worse than any other politician. We are not saying that he is more socialistic than Bill or Hillary Clinton. But, and this is important, they, at least, do not claim to be libertarians with an Austrian flavor. It is Klaus who should be held responsible for the total denouncement of libertarianism (or, in the traditional meaning, liberalism) in our country. It is patently his or his fellows' fault that most people in the Czech Republic now hold that we have tried *laissez-faire* and it didn't work, and that we now have to find some kind of a "third way." "We thought we could let the market deal with everything, but that is preposterous. . . " is the popular notion among the people after eight years of Klaus's presence in government (1990–1998). That is why the Social Democrats are now riding high and have the chance to make things ten times worse.

When free-minded men achieved political power in the Czech Republic, they were supposed to abolish illegitimate state institutions one by one. People were eager to enjoy their freedom, new groups of rent-seekers were not yet established, and the old communist ones could not expect to get much of the tax money. But, as time, passed all this changed, western "experts" came in advising the establishment of institutions to "protect" the free market, and the whole brainwashing machinery started to operate. Free-minded people in the government were transformed into people routinely spending other people's money. Nothing could be done quickly, allegedly because of social considerations involved in the

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[41]Palmer, Preface to Klaus, *Renaissance*, p. xiv.

[42]Palmer, Preface to Klaus, *Renaissance*, p. x.

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transformation (keeping "social cohesion" etc.) The de-socialization steps had to be slowed, then postponed, and finally (and therefore) even the majority of people started to believe that liberty was not worth pursuing, that, again, a "third way" had to be found.

Klaus, an intelligent, well-read man, knew well what was supposed to be done, or, at least, what was not to be done. He was the one we should thank for that promising chance—the Czech Republic's unprecedented opportunity to move quickly toward a *laissez-faire* society. But Klaus is also the one we should blame that such a chance was totally squandered.

The moral of our story, which is now coming to its end, is that anti-free-market and anti-liberal policy measures cannot be implemented in the process of "recreating" a *laissez-faire* society. As Rothbard aptly remarked:

> The libertarians should be a person who would push the [Read's] button, if it existed, for the instantaneous abolition of all invasions of liberty.[43]

It is not the gradualism principle, but the abolitionism principle, to which a libertarian must necessarily stick, since, as William Lloyd Garrison warned, "Gradualism in theory is perpetuity in practice."[44]

This story should also give you pause before you get too excited the next time you hear someone talking like Mises introduce himself as a politician.

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[44]Quoted in Rothbard, *The Ethics of Liberty*, p. 260.

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PREJUDICE IS FREE, BUT DISCRIMINATION HAS COSTS

by Steven Farron*

Thomas Sowell provides examples of people from many parts of the world demanding that their governments restrict the economic and occupational success of specific ethnic or racial groups. However, when the same people act as individuals or business owners, they actively resist and/or circumvent these restrictions.[1]

The reason is a fundamental economic principle, which is obvious to common sense. If an individual or business, while engaging in an economic activity—hiring, promotion, lending money—considers any non-economic factors, the person or business will suffer economically—even if the non-economic factors were considered unconsciously. Martin Katz provides an excellent concise demonstration of this principle in his argument for government-enforced affirmative action. He demonstrates that the lower average income and occupational status of black Americans must be caused by their lower productivity, not by racial discrimination. So, without government

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The title "Prejudice Is Free, But Discrimination Has Costs" is an observation by Thomas Sowell, *Preferential Policies: An International Perspective* (New York: W. Morrow, 1990), p. 22.

[1]Sowell, *Preferential Policies*, pp. 19–40.

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intervention, this situation will persist because of the extremely powerful pressure that competition puts on businesses to maximize profits by choosing the best possible person for every job without considering his race.[2]

In large businesses, the government-enforced discrimination that Katz advocates does succeed somewhat in blunting the relentless pressure of capitalistic competition to evaluate people as individuals, rather than as members of races or ethnic groups, since the government ensures a level playing field for all competitors, and the costs incurred are diluted by the businesses' abilities to engage in additional non-discriminatory hiring, promotion and business transactions. In government employment and at universities, discrimination invariably accomplishes its goal, since there is no direct competition and its costs are hidden.

"Discrimination" means using criteria other than those by which the organizations involved contribute the most to society. The most important contributions by universities are to educate students and to conduct research. The goal of business is profit. The collapse of economic systems based on other goals, socialism and the eastern Asian variant of capitalism, which subordinated profits to social goals like providing secure employment and maximizing production, has demonstrated that profit is the only indicator of economic efficiency. Consequently, the nebulous social benefits that the champions of discrimination claim for it are gained not only at the expense of its immediate victims—the people who are not hired, admitted to university, etc.—but also at the expense of the entire society. The only certain beneficiaries are the people who are hired, promoted, etc. over more competent people; and, as I will illustrate, they are always the elite of the preferred group.

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[2]Martin Katz, "The Economics of Discrimination," *Yale Law Review* 99 (1986): 1033–52. His explanation of why considerations of anything but merit cannot persist in an untrammelled market economy is on pages 1036–39. Katz assumes without discussion that blacks are as intelligent as whites (p. 1044 n. 44), so he attributes their lower productivity to past discrimination.

As used universally today, affirmative action means discrimination against racial/ethnic groups that are more successful than others, for the purpose of equalizing socio-economic-educational disparities. In those contexts, I will use it interchangeably with discrimination.

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Moreover, the putative benefits of discrimination are irrelevant for small businesses since they cannot be coerced into practicing it. The reasons are that the government cannot enforce discrimination uniformly on them, and its costs for them are obvious, painful, and impossible to dilute. If a small business discriminates against any individual or group of people, even if unconsciously or by using mistaken criteria, a competitor will take advantage of its lapse and hire/promote/lend money to the people against whom discrimination was practiced, thus gaining a considerable competitive advantage. Moreover, most small businesses deal directly with individual consumers. When individuals buy products and services, few practice discrimination, no matter how desirable they think it is, and no matter how eagerly they want their government to enforce it. The reasons are that, for consumers, the cost of discrimination is unavoidably obvious, and they have no way to compensate for it.

I will provide some striking examples of this universal pattern. Its universality depends on the interaction of the economic principle I outlined with a psychological tendency, that when people act individually, rational self-interest obliterates all other considerations, even to the extent of trying to circumvent legal regulations in order to do business with people whom they loathe and hate. Thus, this pattern provides a cogent empirical proof for the most basic premise of economics, the primacy of rational self-interest in economic transactions, a premise that is by no means self-evident.

MALAYSIA: THE AFFIRMATIVE ACTION MODEL

> A draft affirmative action bill that requires every business [in South Africa] to have an affirmative action plan will be released before the end of the year. . . . The bill will follow the Malaysian affirmative action model.[3]
>
> President Mugabe [of Zimbabwe] has frequently visited Kuala Lumpur [the capital of Malaysia] and praised its racial policies as a model for the whole world to emulate.[4]
>
> A study commissioned by the Malaysian government has found that the economy's productivity growth has

[3]Johannesburg *Star*, Business Report (September 5, 1997): 1.

[4]Johannesburg *Star* (December 22, 1994): 3.

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> been rising slowly, from an already low base. . . . What hampers productivity of labor is that 25 years of pro-Malay affirmative-action policies have made it almost impossible to sack workers in vastly overstaffed businesses.[5]

Today, approximately 60 percent of Malaysia's population is racially Malay, 30 percent Chinese, and 10 percent Indian. (Malays are now officially called *Bumiputra*, but *Malay* is still more widely used.) In the late nineteenth and early twentieth centuries, when Malaysia was a British colony, the British imported Chinese and Indians as unskilled, illiterate laborers. Most of the Chinese worked in mines, especially tin mines, and most of the Indians on rubber plantations. China and India were poorer than Malaysia, so Chinese and Indians worked for less pay than did Malays. Indeed, many of the jobs they did were so strenuous, dangerous, or dirty that Malays would not do them for any wage. The ships that brought the Chinese indentured laborers to Malaysia "were floating hells" with high mortality and suicide rates. Once there, they dug huge mines, some a hundred meters deep, using only hoes. Chinese women "were bent double for hours in the heat of the sun, often immersed to the knees in water, and often with a baby strapped to their backs." The average budget for a Chinese mine worker was $9.70 *per month*.[6] Furthermore,

> Diversions were few, centering on gambling, prostitution and opium smoking—all of which were probably used consciously by the *towkays* (businessmen) to keep the coolies permanently dependent and in debt. . . . Health conditions in the mining camps and early peninsular towns were appalling.[7]

The Chinese also suffered from severe, governmentally imposed, pro-Malay discrimination under British rule:

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[5]Jim Rohwer in *Fortune International* (November 24, 1997): 19. Rohwer is the author of a highly regarded book on Southeast Asia, *Asia Rising* (New York: Simon & Schuster, 1995).

[6]Victor Purcell, *The Chinese in Southeast Asia* (London: Oxford University Press, 1965), 2nd ed., pp. 283–90; Thomas Sowell, *Migrations and Cultures: A World View* (New York: Basic Books, 1996), pp. 179, 191–92.

[7]Donald R. Snodgrass, *Inequality and Economic Development in Malaysia* (New York: Oxford University Press, 1980), pp. 36–37.

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> The Chinese were systematically excluded from some important parts of the economy. They were not allowed into senior administrative posts. . . . Very few Chinese were permitted into the army or police. . . . Chinese holdings in agriculture were stabilized during the first decades of the twentieth century through the progressive exclusion of the Chinese from the development of jungle land and the increasing legal protection of cultivated land owned by Malays.[8]

However, the most serious discrimination was in education. Government Malay-language primary schools were free for all Malay boys and girls, and were compulsory for all boys living within a mile-and-a-half of such schools; many English-language schools were mostly government-financed. The government established no Chinese-language schools, and most Chinese were too poor to pay the fees at English-language schools, or did not choose to use them. So the Chinese established their own schools without government assistance. The teachers in these schools were often fortune-tellers and diviners, and

> the schools themselves had to be seen to be believed. Most of them were dirty, ill-ventilated, and ill-lighted basements, out-houses, or attics; sanitation was non-existent; skin diseases were common . . . the hubbub of pupils . . . was deafening.[9]

Then, when the Japanese occupied Malaysia, many Malays collaborated with them, but the Chinese were persecuted brutally. Many were murdered, and many others, "deprived of some previous forms of employment . . . retreated to a near-subsistence existence on the jungle's fringe."[10]

After Malaysia gained independence in 1957, discrimination against non-Malays, especially anti-Chinese, intensified. Articles 153 and 89 of the Constitution mandated the continuation of the colonial government's pro-Malay discriminatory practices in civil service hiring, granting licenses to private businesses, admission to

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[8]Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 37–39.

[9]Purcell, *The Chinese in Southeast Asia*, pp. 276–78; Sowell, *Preferential Policies*, pp. 45–46.

[10]Sowell, *Migrations and Cultures*, pp. 193–94; Snodgrass, *Inequality and Economic Development in Malaysia*, p. 39.

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universities, and land ownership. In addition, the government subsidized Malay-owned businesses through government contracts and government-financed credit, limited the proportion of Chinese-owned businesses in certain economic activities, and forced Chinese-owned businesses to hire specified proportions of Malays and to transfer stipulated portions of equity to Malays.[11]

Despite this discrimination, the Chinese rose meteorically. In 1911, the most common occupations of employed Malaysian Chinese were mining laborers (41.5 percent), agricultural laborers (11 percent), fruit growers, laborers (unspecified), and domestic servants. Twenty years later, only 11 percent of employed Chinese were miners or agricultural laborers. Ultimately, they owned 85 percent of all retail establishments and comprised more than 90 percent of all chief executives. In 1970, Malays owned less than 4 percent of all manufacturing businesses. At the University of Malaysia, during the 1960s, even despite preferential admissions of and scholarships for Malay students, Chinese earned twenty-two times more Bachelor of Science degrees than Malays, and 102 times more Bachelor degrees in engineering. (Indians, who are outnumbered by Malays six to one, earned two-and-a-half-times as many science degrees as Malays, and five times more engineering degrees.) In 1970, 81 percent of Malaysian architects were Chinese and 4.3 percent Malay; 89 percent of dentists were Chinese, 3 percent Malay, and 5 percent Indian; 45 percent of doctors were Chinese, 4 percent Malay, and 40 percent Indian. (The rest were Eurasians, Ceylonese, etc.)[12]

In May 1969, savage anti-Chinese riots erupted. There had

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[11]Just Faaland, J.R. Parkinson, and Rais Saniman, *Growth and Ethnic Inequality: Malaysia's New Economic Policy* (London: Hurst, 1990), pp. 16–22; Yuan-li Wu, "Chinese Entrepreneurs in Southeast Asia," *American Economic Review* 73, no. 2 (May, 1983): 112–17; Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 211–12.

[12]Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 38, 212–13; Sowell, *Migrations and Cultures*, pp. 192, 349; Sowell, *Preferential Policies*, pp. 46–47; Faaland, et al., *Growth and Ethnic Inequality*, p. 53; Yuan-li Wu and Chun-hsi Wu, *Economic Development in Southeast Asia: the Chinese Dimension* (Stanford, Calif.: Hoover Institution Press, 1980), p. 51; Firdaus H. Abdullah, "Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty," *Ethnic Studies Report* 15, no. 2 (1997): 189–221.

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been many earlier instances of anti-Chinese mob violence, but the riots of 1969 were much more lethal. The Malaysian government's response was based on the assumption that the riots expressed justified indignation at the tremendous overrepresentation of Chinese in business, professions, and universities. (The U.S. government reacted in the same way to the black riots of the same period.) The Malaysian government proclaimed the New Economic Policy (NEP) to attain "racial balance" and "Malayanisation," and to end "identification of race with economic function" by 1990.[13] Not only did the NEP promise to intensify and systematize the racial discrimination that had always existed, but it also set a specific goal and timetable:

> Within a period of 20 years, Malays and other indigenous people will manage and own at least 30 percent of the total commercial and industrial activities in all categories and scales of operation. . . . Employment pattern at all levels and in all sectors . . . must reflect the racial composition of the population.[14]

The NEP also mandated that, by 1990, Malays would own 30 percent of all shares in corporations, Malaysian Chinese and Indians would own 40 percent, and foreigners would own 30 percent. (In 1970, Malay individuals owned 2.6 percent of corporate shares, Malay trust agencies owned another 1.7 percent, Malaysian Chinese and Indians owned 34 percent, and foreigners 61.7 percent.)[15]

The NEP did greatly increase the number of Malays in government institutions. At the universities, which are government-controlled, total enrollment increased by 2.9 times between 1970 and 1980. At non-university diploma-granting institutions, the rise in enrollment was even faster, so in that one decade, enrollment in tertiary education increased by 3.4 times. A more remarkable transformation was that by 1980, the proportion of students at Malaysian universities who were Chinese and Indian was lower than

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[13]T. Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80: The Employment Perspective," in Robert B. Goldmann and A. Jeyaratnam Wilson, eds., *From Independence to Statehood* (London: Frances Pinter, 1984), p. 45; Faaland et al., *Growth and Ethnic Inequality*, p. 73.

[14]Faaland et al., *Growth and Ethnic Inequality*, pp. 76, 313–14.

[15]Faaland et al., *Growth and Ethnic Inequality*, pp. 140–42.

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their proportion in the Malaysian population.[16]

The civil service had always been overwhelmingly Malay, even under the British, thanks to massive racial discrimination, and it had always been treated as a major means of providing employment for educated Malays, from high school graduates, who became clerks, to college graduates, who became administrators. Between 1947 and 1957, 78,000 government jobs were created for Malays, accounting for 77 percent of the net increase in non-agricultural jobs for Malays; another 76,000 government jobs were created for Malays between 1957 and 1967. Under the NEP, the civil service was greatly expanded, and its salaries repeatedly increased until it became one of the highest-paying employers in Malaysia. Moreover, Chinese and Indians were ousted even from positions requiring technical knowledge, which they had previously been allowed to hold. With extremely few Malay scientists, engineers, and doctors,

> Insistence in hiring Malays [in the civil service] doggedly adhered to even when no qualified Malays were available, led to serious delays in important development programmes—often, ironically, programmes designed to benefit the Malays themselves.[17]

However, as the number of Malay university graduates skyrocketed in the 1970s, even this frantic expansion of the civil service could not absorb them:

> After 1969 . . . the supply of university-trained Malay generalists threatened to outrun demand, until the government's move toward direct participation in business gave a new boost to demand growth.[18]

Notice that Snodgrass is talking about the government undertaking major economic intervention to stimulate demand not for products or services, but for Malays who received university degrees through

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[16]Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," pp. 48–50; M. Heidhues, "Malaysia" and "Indonesia," in Minority Rights Group, eds., *The Chinese of South-East Asia* (Manchester: Manchester Free Press, 1992), p. 14.

[17]Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 226–28; Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," pp. 47–48.

[18]Snodgrass, *Inequality and Economic Development in Malaysia*, p. 228.

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affirmative action. Lin describes this phenomenon from a different perspective:

> Confronted with an apparent Bumiputra [i.e., Malay] inability to take up shares in commerce and industry, the public enterprise emerged as a new instrument in ownership restructuring, buying up shares in trust for Bumiputras, to be resold to Bumipturas later.[19]

Snodgrass attributes the unemployability of these Malay university-graduates to their being "generalists"—in other words, liberal arts majors. However, the majority of them received their degrees through affirmative action, not merit. Thus, they were incapable of performing jobs that require the difficult mental work that can be assumed of legitimate university graduates in any field. This must be a large part of the reason why they could not obtain jobs in the private sector despite all the government's regulations and subsidies to force and bribe private businesses to hire Malays.

As for the public enterprises mentioned above, Malaysian government statistics indicate that, in 1976, in those that were 100 percent government-owned; 63 percent of the managerial, professional, technical and supervisory personnel were Malays; in those that were 50–99 percent government-owned, the proportion was 41 percent; and in those that were 0–49 percent government-owned, the proportion was 30 percent. The same Malaysian government statistics show that those enterprises in the first category lost $133 million (U.S.) by 1976, those in the second category lost $48 million, and those in the last made a profit of $53 million. This difference must be largely caused by the differences in competence among the people running each type of enterprise.[20]

These statistics provide the reason why, in private enterprise, where efficiency and profitability are all-important, racial discrimination was much more difficult to enforce. In fact, the government abandoned the NEP's goals for the proportion of Malays in various private-sector occupations well before 1990. In 1982–83, the government announced that racial restructuring had to be curtailed because it was impeding economic growth. In 1985, also to stimulate growth, the government announced a privatization policy to in-

[19]Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," p. 52.

[20]Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," pp. 52–54.

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crease private-sector investments from 50 percent of all investment to 62 percent in 1990. These changes were implicit repudiations of the NEP, since "It was a cardinal principle of the New Economic Policy . . . that, if necessary, growth had to be sacrificed for equity [i.e., racial discrimination]." When the NEP ended in 1990, average Chinese income was twice that of Malays, and average Indian income 1.5 times that of Malays—about the same ratios as when the NEP was instituted twenty years earlier.[21]

The only areas of private enterprise in which the NEP had a significant impact were employment at the top level of big businesses and share ownership in Malaysian corporations. In big businesses, the number of Malay partners, executives, and board members, most of whom had political connections, increased greatly. By 1990, Malays owned 20 percent of corporate shares, often through forced transfers at below market prices. That was only two-thirds of the 30 percent target set by the NEP, but it was 4.7 times the proportion of shares held by Malays in 1970, and was one of the few areas in which an NEP goal came even that close to being achieved. In the same period, the proportion of shares in Malaysian corporations owned by Malaysian Chinese and Indians rose from 34 percent to 57 percent. The latter was much higher than the 40 percent target set by the NEP because the proportion of shares held by foreigners declined precipitously.[22]

In contrast with the massive public employment of Malay affirmative-action university graduates, the proportion of "professional and technical workers" in the private sector who were Chinese and Indian actually rose after the NEP was instituted.[23] The number of Malay-owned small businesses also remained extremely low, despite desperate government attempts to help would-be Malay entrepreneurs. For example, the government extended the policy that the British had begun of lending money to Malay-owned businesses, even though these loans always had a

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[21]Faaland et al., *Growth and Ethnic Inequality*, pp. 89–91, 94, 99, 113, 135–36, 146.

[22]Sowell, *Migrations and Cultures*, p. 196; Heidhues, "Malaysia" and "Indonesia," pp. 12–13; Faaland et al., *Growth and Ethnic Inequality*, pp. 140–42.

[23]Sowell, *Preferential Policies*, p. 51.

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high rate of default. In construction, a 5 percent bidding preference for bids from Malay firms was instituted in the early 1960s; nevertheless, Malay firms "have won only a tiny share of public-sector construction contracts, to say nothing of private construction." In road transport, a policy begun in 1954 to favor Malays when granting taxi and trucking licenses and to promote the formation of Malay bus companies did raise the Malay share in road transportation employment from 28 percent in 1947 to 35 percent in 1967. However:

> On the negative side, there is the extent of purely nominal compliance (for example, *sub rosa* leasing of Malay-licensed taxis to non-Malays) and the inefficiencies introduced into transportation services. There is no doubt that the number of licensed taxis and common-hauler trucks have increased less than they would have in the absence of the restrictive licensing policy, while substitute vehicles such as private cars (some of which are used as "pirate taxis") and trucks licensed only to carry the owner's goods have grown proportionately.[24]

Two facts illustrate why government-enforced discrimination in small businesses is ineffectual. When the government sponsored and supported a Malay-owned-and-run bank, "it behaved much like any other profit-oriented commercial bank . . . making more loans to the more credit-worthy Chinese, Indian, and foreign enterprises than to Malay." Similarly,

> When Malays did open trading establishments, often with official assistance, difficulties were usually encountered. Ironically, even Malay customers frequently preferred non-Malay shops since their prices tended to be lower, and . . . they were more willing to extend credit.[25]

The crucial question is why the Chinese have dominated Malaysian business. There is one and only one explanation. Malaysians of all races, no matter what their prejudices, prefer doing business with Chinese than with Malays.

So government racial regulations have been circumvented, but that has required a great deal of time and effort, since the inevitable result of affirmative action regulations is to:

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[24]Snodgrass, *Inequality and Economic Development in Malaysia*, p. 226.
[25]Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 212–13, 223.

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> give a large discretionary role to individual [government] administrators and create a multiplicity of regulatory agencies in rule making. . . . Chinese entrepreneurs must devote a disproportionate amount of energy to dealing with the bureaucracy. . . . Native front men . . . in the executive suite . . . [form] a new rentier class, not a new crop of native entrepreneurs.[26]

> Quotas for employment of Bumiputras [Malays] have led Chinese businessmen to resort to a variety of strategies to circumvent government interference. . . . The device of "Ali-Babism" (collaborating with a Malay "Ali" but keeping control themselves, "Baba" meaning a Chinese) has been used . . . not just in Malaysia. Today this arrangement . . . has grown. . . . Bumiputra favouritism can tempt collection of illegal and extra-legal fees, and observers believe that corruption has increased.[27]

The front-page headline of the Johannesburg *Star* of November 7, 1997, read "Affirmative Action Scams Exposed." It quoted a study that found it "commonplace" for "corporations [to] use black front companies and hire 'ghost' black directors to win contracts." If those who conducted this study, or the South African government, knew anything about "the Malaysian affirmative action model" that South Africa is supposed to follow, they would know that these "scams" follow the Malaysian model exactly, despite decades of attempts by the Malaysian government to stop them.

Finally, who benefits from this complex, fraudulent web of maneuvering?

> The businesses held in trust for the Malay community as a whole are in fact managed by members of the Malay elite. The new tycoons who make up the top layer of this elite are drawn from high social status groups. . . . Several are members of royalty. . . . Publicly-sponsored enterprise will . . . provide jobs for only a tiny fraction of the Malay labor force [but] they could offer a significant way of "taking care of" the swelling flow of [affirmative-action-university-] educated Malays.[28]

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[26]Wu, "Chinese Entrepreneurs in Southeast Asia," p. 116.

[27]Heidues, "Malaysia" and "Indonesia," p. 13.

[28]Snodgrass, *Inequality and Economic Development in Malaysia*, p. 221.

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The proportion of the share of Malay income going to the richest 10 percent of Malays rose from 42 percent to 53 percent, and even among the richest 10 percent of Malays, the growth in relative wealth was restricted to the wealthiest half (i.e. about 5 percent of all Malays). In fact, the percentage of poor Malaysian households that were Malay increased from 73.8 to 75.5.[29] Ethnic preferences have made the mass of Malays not only relatively poorer, but absolutely poorer as well, since Malaysia would have been considerably more prosperous without these preferences.

> Some economists have argued that NEP has actually retarded economic growth. The government appeared to acknowledge this in mid-1991, when its new "National Development Policy" was announced as a ten-year plan to emphasize growth more than ethnic redistribution. Nevertheless, NEP favouritism for Bumiputras can be expected to continue.[30]

The Malaysian government is fully aware that the rewards from affirmative action have gone to a small circle of Malays. Dr. Mahathir Bin Mohamad, who has been Malaysian Prime Minister since 1981, Minister of Home Affairs since 1986, was Minister of Education from 1974 to 1977, and Minister of Trade and Industry from 1977 to 1981, did more than anyone else to enforce these preferences. In his book *The Malay Dilemma,* he observed, "These few Malays, for they are still only very few, have waxed rich not because of themselves, but because of the policy of a government . . . . The poor Malays themselves have not gained one iota."[31] Dr. Mahathir summed up the problem: "*Whatever the Malays could do, the Chinese could do better and cheaper.*"[32]

The same Chinese "problem" exists wherever Chinese live. In Indonesia, like Malaysia, Chinese suffered from discrimination in

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[29]M. Puthucheary, "Public Policies Relating to Business and Land, and their Impact on Ethnic Relations in Peninsular Malaysia," in R.B. Goldmann and A.J. Wilson, eds., *From Independence to Statehood* (London: Frances Pinter, 1984), pp. 158, 163–4.

[30]Heidues, "Malaysia" and "Indonesia," p. 13.

[31]Dr. Mahathir Bin Mohamad, *The Malay Dilemma* (Singapore: Asia Pacific Press, 1969), p. 44.

[32]Mahathir, *The Malay Dilemma*, p. 25, italics added.

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land ownership and education under Dutch colonial rule, and even more intense discrimination after independence. They have also been victims of mob violence on a much greater scale there than in Malaysia. Chinese there comprise less than 3 percent of the population but control 70 percent of the country's private domestic capital and run 80 percent of its 200 largest businesses. In Thailand, despite pro-Thai affirmative action since the 1930s, Chinese continue to own more than 70 percent of all retailing outlets and 80 percent to 90 percent of the rice mills, the largest businesses in the country. In fact, they control every phase of rice production except farming—buying the rice, transporting it, milling it, and exporting it. Even some of the government-owned enterprises established to reduce the role of the Chinese in the economy have ended up hiring Chinese managers. In the Philippines, where Chinese comprise less than 1 percent of the population and were victims of discriminatory legislation and mob violence under the Spanish, and again after 1921, they own 75 percent of retailing businesses. The Americas are no different. In mid-twentieth-century Jamaica, the average Chinese income was three times the average income of mixed Chinese-black Jamaicans, and five times that of black Jamaicans; anti-Chinese riots have been common there as well.[33]

The Chinese (and Indian) "problem" in Southeast Asia and the futility of all attempts to solve it were well summarized in 1955 by Virginia Thompson and Richard Adloff's *Minority Problems in Southeast Asia*. The "problems" in their title refers to minority domination of the Southeast Asian economies, and they agree with the local populations of the countries involved that it is a problem that has to be solved by:

> controls which the respective governments are now [in 1955] trying to impose on Chinese business. Chief among these are the official monopoly of the rice trade in Burma, Thailand, and Indochina; the reservation to nationals of a majority of the licenses granted to exporters

[33]Sowell, *Migrations and Cultures*, pp. 176, 186–90, 203–212, 219–20; Heidhues, "Malaysia" and "Indonesia," p. 15; D.S. Eitzen, "Two Minorities: The Jews of Poland and the Chinese of the Philippines," *Jewish Journal of Sociology* 10 (1968): 222–25; Wu and Wu, *Economic Development in Southeast Asia*, p. 51.

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> and importers in Indonesia, Cambodia, and Burma, and in the case of Viet Nam to French firms; and the development in these countries of co-operative societies designed to eliminate the alien middleman and the moneylender. . . . Attempts to control the Chinese . . . have been frustrated by Chinese evasion, ability, and indispensability. . . . Licensing systems have been thwarted by the willingness of inexperienced indigenous businessmen, whom they were intended to benefit, to sell their import and export permits to Chinese. . . . Indonesia's President Sukarno in a speech . . . attacked the Chinese: "Government regulations have frequently been violated, outsmarted. . . . These foreigners . . . have sown the seeds of racial hatred, because the difference between rich and poor coincides with the difference in nationalities."
>
> None [of the governments of Southeast Asia] has yet proved the ability of its own nationals to replace the services which the Chinese have performed. No amount of legislation . . . can induce enough of its own people to take up jobs which the Chinese can no longer legally fill. More important is the grave problem of agricultural credit. Development of the co-operative movement is widely believed to be the answer . . . but Burma's government has had to write off, at a great loss to the national treasury, the great bulk of agricultural loans it had made to peasants. The Chinese seem, through sheer ability, to have adapted themselves. . . . Double-taxed by both regimes in Viet Nam, subject to extortion from "agents" of both Peiking and Taipeh in Malaya and Thailand, and the target of discriminatory legislation everywhere . . . the Chinese have . . . prospered.[34]

As the statistics I cite before my quotation from Thompson and Adloff show, the solutions that they mention for the Chinese prob-

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[34]Virginia Thompson and Richard Adloff, *Minority Problems in Southeast Asia* (Stanford, Calif.: Stanford University Press, 1955), pp. 6–8.

The moneylenders whom the Burmese government replaced, with disastrous results, were Indians, who constituted 8 percent of all employed Burmese but more than half of Burmese doctors, businessmen, and bankers. They were rewarded with discriminatory legislation, mob violence, and expulsion. Thompson and Adloff, *Minority Problems in Southeast Asia*, discuss this at greater length on pages 83–87; see also Sowell, *Migrations and Cultures*, pp. 345–46.

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lem have been no more effective in the forty-five years that followed the publication of their book than they had been earlier. Consequently, in the spring of 1998,

> Chinese-owned office buildings, banks, and shopping centers all over Indonesia went up in smoke. Ethnic Chinese homes and shops were looted; ethnic Chinese women were pulled off buses and brutally raped.[35]

James Rohwer, after discussing Chinese business and professional success throughout Southeast Asia and the violent hatred it invariably causes, pointed out:

> If this sounds familiar from something in European history, it should: As early as the seventeenth century, European travellers in Southeast Asia were describing the Chinese as "Jew-like."[36]

When King Rama VI, who ruled Thailand between 1910 and 1925, wrote a book entitled *The Jews of the East* to attack the Chinese in Thailand, he was using for his title a description that had been widely used for three hundred years.[37] More recently, while Amien Rais, the head of the 28-million-member Indonesian Islamic organization Muhammadiyah, was a graduate student at the University of Chicago, he said that he wanted to prevent the Chinese from attaining the type of control over Indonesia that Jews had attained over the United States.[38]

So it is significant that when IQ tests were invented, they explained the similarity between Jews and Chinese that has been repeatedly noted for three centuries.

The difference in average IQ between Chinese and Austronesians (a racial category that includes Malays, Indonesians, and Filipinos) is approximately the same as the difference in average IQ between European Jews and Gentiles (and also the difference in average IQ between American whites and blacks). The average IQ of American blacks is in the middle 80s, of Austronesians high 80s

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[35]Jonathan Paris, "Minority Rules," *New Republic* (July 13, 1998): 20–22.

[36]Rohrer, *Asia Rising*, p. 231.

[37]Daniel Pipes, *Conspiracy: How the Paranoid Style Flourishes and Where it Comes From* (New York: Free Press, 1997), pp. 123–24.

[38]Paris, "Minority Rules."

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to middle 90s, of white Gentiles 101–3, of Chinese 105–6, and of Jews of European origin 114–19, depending on the type of IQ test used. The relative success of these ethnic groups, whenever they live together in the same country, adds to the other irrefutable evidence that intelligence is genetically determined, that it is the primary factor in socioeconomic success, and that it is measured accurately by IQ tests.[39]

For this reason, institutionalized discrimination, no matter how severe or prolonged, has never solved the problem of ethnic/racial occupational-economic inequality. The only solution is the elimination of the guilty group, whether by expulsion, as of the Indians in east Africa, or mass murder, as of the Jews of Europe. (I ask the reader to suspend judgment on this assertion until he has finished this article.)

SOUTH AFRICA: HISTORY REPEATS ITSELF

Karl Marx wrote:

> Hegel remarks somewhere that all facts and personalities of great importance in world history occur, as it were, twice. He forgot to add: The first time as tragedy, the second time as farce.[40]

Slightly fewer than 60 percent of white South Africans are Afrikaners, that is, South Africans whose first language is Afrikaans, a dialect of Dutch that evolved in South Africa. They have been

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[39]Richard Herrnstein and Charles Murray, The Bell Curve: *Intelligence and Class in American Life* (New York: Free Press, 1994), pp. 272–76, 300–1, 359; Miles D. Storfer, *Intelligence and Giftedness: The Contributions of Heredity and Early Environment* (San Francisco: Jossey-Bass, 1990), pp. 314–23; Daniel Seligman, *A Question of Intelligence: The IQ Debate in America* (New York: Carol Publishing Group, 1992), pp. 121–24, 130–33; R. Lynn, "Intelligence, Ethnicity and Culture," in J. Lynch and C. Mogdil, eds., *Cultural Diversity and the Schools* (London: Falmer Press, 1992), vol. 1, pp. 367–68, 371.

The relative economic success of different countries is determined primarily by their economic systems, as North and South Korea and the former East and West Germany illustrate.

[40]Karl Marx, *The Eighteenth Brumaire of Louis Napoleon*, in Lewis Feuer, ed., *Marx and Engels* (Garden City, N.Y.: Anchor, 1959), p. 320.

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considerably poorer, and more rural, religious (Dutch Reform), and racist than English-speaking white South Africans. Most English-speaking white South Africans are of British origin, but a considerable proportion are of other European nationalities. By far, the most important of these economically are Jews, who, in 1987, were only 2.3 percent of the white population but controlled corporations that accounted for 62 percent of the total capitalization of the shares listed on the Johannesburg Stock Exchange.[41]

The Afrikaner majority was magnified electorally because rural districts were overrepresented in parliament. Every South African head of state was an Afrikaner from the formation of the Union of South Africa in 1910 until South Africa's first black president, Nelson Mandela, in 1994.

It is instructive to compare President Mandela's economic views with those of his predecesors. At the fiftieth ANC National Conference, on December 16, 1997, he said:

> [An] important element of our policy is the deracialisation of the economy to ensure that . . . in its ownership and management, this economy increasingly reflects the racial composition of our society. . . . Business success can no longer be measured solely by reference to profits. . . . The *laissez-faire* argument . . . invokes the argument of the survival of the fittest. There is something wrong with making the survival of the fittest the guiding principle of a civilised society. . . . The situation cannot be sustained in which the future of humanity is surrendered to a so-called free market, with government denied the right to intervene. . . . Our own society [is one] in which many are driven by the unhampered pursuit of self-interest, and . . . money has forcefully taken the place of fundamental values. . . . The evolution of the capitalist system in our country put on the highest pedestal the promotion of the material interest of the white minority.

On October 11, 1958, *Die Transvaler,* whose editor for many years was Hendrik Verwoerd, Prime Minister from 1958–1966, had the following editorial.

> There are people who [argue that] . . . simply everything . . . must be made subordinate to their so-called

[41] *Economist* (March 15, 1997): 50.

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> economic laws. . . . It is fortunate that under a Nationalist government these worshippers of economic laws have never had their way but that a nobler and higher goal has been striven after—the maintenance of white civilization.[42]

In September 1941, *Volkshandel* made a different accusation against capitalism:

> Every sober-minded, thinking Afrikaner is fed up to the top of his throat with so-called *laissez-faire*—let-it-be—capitalism, with its soul-destroying materialism and the spirit of "every man for himself. . . ." We are sick of it because of . . . the condition which makes the Afrikaner a spectator in the business of his own country.[43]

In a speech in October 1934, Daniel François Malan, who fourteen years later became Prime Minister and inaugurated the policy he called *apartheid*, said:

> By revolution or evolution, the capitalist system, which is based on self-interest and the right of the stronger, is doomed.

The attacks on capitalism quoted above can be misleading. The ANC once championed socialism, but now it wants to use the productive power of capitalism while preventing the "fittest" from retaining economic control, as they would if capitalism were unrestrained. Similarly, as late as the early 1950s, some Afrikaner nationalists were genuine socialists; most, though, wanted to benefit from capitalism while employing the government to prevent what they accurately perceived would be the inevitable results of unrestrained capitalism: economic, social, and residential racial integration and interdependence, a decline in the standard of living of white manual workers (most of whom were Afrikaners), the end of a distinctively Afrikaans culture, and control of the economy by the "stronger."

Before preceding, it must emphasized that the transfer of Darwinian terms like "fittest" and "stronger" from biology to economics is extremely distorting since in *laissez-faire* capitalism success

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[42]This and the following quotations are from Walter Williams, *South Africa's War against Capitalism* (New York: Praeger, 1989), pp. 97, 126.

[43]*Volkshandel* (September, 1941).

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can be gained and maintained in only one way: being better than competitors at providing products and services that other people want. For example, in 1908, the least expensive cars cost $1500. In that year, Henry Ford began selling cars for $825, and, by 1925, he was selling them for $260. That made him the "fittest" and "strongest" automobile manufacturer in the world.

Prime Minister Malan and President Mandela used these distorting terms so as to represent themselves as champions of a higher, more refined, and more humane economic system. In fact, though, their real objection is that the "stronger" and "fittest" are the wrong people: whites in general for President Mandela; Anglo-Saxon whites (rather than Afrikaners) and, even more, Jews for Prime Minister Malan.

"Survival" is equally misleading. President Mandela knows that capitalism ensures biological survival better than any other economic system. Many of Henry Ford's competitors did not "survive" in "ownership and management," to quote President Mandela, because the public preferred Ford's cars to theirs, but their biological existence was not endangered.

Most English-speaking white South Africans had only weak emotional ties to South Africa. As such, they did not develop ideological justifications for racial discrimination, as Afrikaners and black nationalists did. Still, they had strong practical reasons for supporting racial discrimination. Some English-speakers, although fewer than Afrikaners, were manual workers, and others sympathized with white laborers. Most importantly, nearly all white South Africans wanted to prevent residential integration because they feared (correctly) that it would expose them to an extremely high rate of crime. Consequently, from well before the 1910 formation of the Union of South Africa, regional South African governments tried to impede racial economic integration, which would lead to residential integration, and to protect white laborers from black competition. The goal of preventing "the stronger" from controlling the economy was, of course, held only by Afrikaners and was not implemented until the Afrikaner nationalists, under Malan, gained sole control of the government in 1948.

Few peoples in world history have had nearly as good or obvious reasons for practicing racial discrimination as white South Africans did. However, the economic self-interest of each individual

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is always not to discriminate. So, even in South Africa, whites, acting collectively, had to resort to large-scale government intervention to enforce discrimination, and that intervention was constantly opposed by individual whites and white-owned businesses. David Yudelman, in a classic summary of the interpretations of South African economic history, pointed out that there are "certain intractable facts" that no one can deny:

> White industrialists have put continual, concerted pressure on the South African government . . . to allow them to use more black labor, and in more skilled jobs . . . because . . . they see this as a way of becoming more affluent.[44]

The first major confrontation came in gold mining. More than half of South Africa's export earnings came from gold, and a tax of 42 percent on the profits of gold mines made them the major source of government revenue. This gave mining unions great power, since a strike threat was a national crisis. Consequently, between 1893 and 1918, mining unions obtained more and more legislation restricting the employment of non-whites, especially in skilled jobs. However, the price of gold is determined internationally, so the level playing field that the South African government's regulations provided against the gold mines' domestic competitors could not protect them from the losses that inefficient employment policies imposed on them. The mine owners responded to these regulations with as much evasion and illegal hiring as they could get away with. Finally, during 1921, the price of gold fell from 130s. per ounce to 95s., while labor costs per ton had increased by a third since 1915. Despite Prime Minister Smuts's warning that racial job quotas are "sacrosanct," the desperate mine owners replaced about a third of their white miners with blacks, and lowered the wages of the other white miners, who now had black competition. The result was one of the bloodiest labor disputes in the history of the world. White miners, many led by Communists and socialists, waving red flags and chanting, "Workers of the world, unite and fight for a white South Africa," burned, looted, and attacked blacks and police stations. For a few days, the strikers controlled most of Johannesburg and its environs. Order was restored

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[44]David Yudelman, "Industrialization, Race Relations, and Change in South Africa," *African Affairs* 74 (1975): 93.

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only by seven thousand soldiers, artillery, aerial bombardments, and tanks. Between 200 and 250 people were killed, over four-fifths of whom were white, and more were wounded. Four strike leaders were hanged and one committed suicide. The mine owners' final victory came in 1923, when the courts ruled that the laws regulating racial mining employment are *ultra vires*. In 1924, the mines had their highest profits since the formation of the Union of South Africa.[45]

Prime Minister Smuts's South Africa Party (SAP) controlled the government that crushed the strike, whereas the National Party, which represented Afrikaner workers, farmers, and nationalists, and the Labour Party, which represented English-speaking workers, supported the strikers. The SAP incurred a great deal of hostility because of the brutal suppression of the strike; the Communist and National Parties accused Smuts of being a "puppet of Goldbergs" (i.e. capitalists).

The next election, in 1924, was won by a coalition of the National and the Labor Party. The new government passed legislation that entrenched racial restrictions in mining employment beyond legal challenge, despite "tremendous pressures by capital to erode the [racial] bar." As a result, between 1935 and 1963, the average annual real rate of return on South African mining shares was only 0.2 percent, and South African mining companies diverted much of their investment abroad. By 1970, many gold mines were kept operating by government subsidies; the annual amount of these subsidies was what the mines would have saved by replacing 70 percent of their white with black workers.

The economic situation of the gold mines would have been even worse if the mining unions and government did not agree to several *ad hoc* relaxations of the color bar to save marginal mines from bankruptcy. In these cases, some of the productivity gains were passed on to white miners in the form of higher wages. As is typical of racial preferences, the beneficiaries of these severe economic dislocations were the elite of the protected group: white

[45]Merle Lipton, *Capitalism and Apartheid (South Africa 1910–86)* (Cape Town: David Philip, 1989), 2nd ed., pp. 112–17, 261, 265; Sowell, *Preferential Policies*, pp. 24–26; Williams, *South Africa's War against Capitalism*, pp. 36–37, 46, 48–60, 71.

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mine workers, whose wages were one-third to two-thirds higher than those of white manufacturing workers.[46]

The National–Labour government also made tariff protection for manufacturers conditional on "the employment of a reasonable proportion of civilised workers," thus compensating for the costs of racial discrimination.[47] In 1934, the Customs and Tariff Commission explicitly acknowledged that "the greatest competitive drawback of SA industry is the high cost of white labour." The new government also made the employment of a large proportion of whites a prerequisite for bidding on government contracts, gave unions a key role in determining occupational structure, wages, and access to training, and passed a minimum wage law for the expressed purpose of diminishing the advantage of black over white labor. However, despite these inducements and attempts at coercion, between 1924 and 1940 the proportion of manufacturing employees who were white rose by only four percent (from 38 percent to 42 percent).[48]

Farmers exercised much more political influence than other employers. They were more numerous than other types of employers, and their numbers were magnified by the overrepresentation of rural districts in Parliament. Moreover, most farmers were Afrikaners, while most other employers were English-speaking; and farmers benefited from romantic associations among Afrikaner nationalists. In 1910, more than half of the ruling SAP's Members of Parliament (MPs) were farmers; in 1948, nearly half of the victori-

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[46]T.R.H. Davenport, *South Africa: A Modern History* (Houndsmills, Basingstoke, Hampshire: Macmillan, 1987), 3rd ed., pp. 279–85; Williams, *South Africa's War against Capitalism*, pp. 58, 60–61, 63, 114–20; Lipton, *Capitalism and Apartheid*, p. 38; A. and B. Standish, "Poor Whites and the Role of the State: The Evidence," *South African Journal of Economics* 53 (1985): 146.

[47]"Civilised" labour was defined as "the labour rendered by persons whose standard of living conforms to the standard of living generally recognized as tolerable from the usual European standpoint." It sometimes included Coloureds (i.e. mixed-race), but for the sake of simplicity, I will use it as synonymous with whites.

[48]Lipton, *Capitalism and Apartheid*, pp. 19–20, 38–39, 239; Williams, *South Africa's War against Capitalism*, pp. 38–39, 62–63, 72–74, 86–87, 101; Sowell, *Preferential Policies*, pp. 27–28.

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ous National Party's MPs were farmers, as were 20 percent of the opposition United Party's MPs. Because of their political influence, farmers were the only group of employers who managed to avoid any government intervention in their employment practices. Consequently, agricultural employees, even in skilled and managerial jobs, came to be nearly all black, despite high Afrikaner rural unemployment. At first, farmers championed controls on black job mobility; but, in their need for a skilled, stable labor force, they came to join urban employers in pressuring the government to improve black education and end restrictions on black job mobility and settlement in areas reserved for whites (which did not mean in the same neighborhoods as whites).[49]

Since private employers could not be induced to hire the unemployed whites who were displaced from rural areas, most of whom were unskilled and uneducated, the government supplied employment. As early as 1911, the railroads, which were government-owned, recognized that they had a responsibility to employ unskilled whites, even though they cost much more than blacks; and, in 1920–21, the Forestry Department reported that the employment of white labor is "hardly justifie[d] from the economic . . . point of view, but [is justified] from the social standpoint."[50] Between 1924 and 1940, the number of whites employed by the government in relief work rose from fewer than 19,000 to nearly 55,000. The proportion of whites employed by the Railways and Harbours Administration, the largest government employer of manual labor, increased from 9.5 percent in 1924 to 39.3 percent in 1933, and kept increasing until 1940; meanwhile, the proportion of black employees decreased from 75 percent to 48.9 percent between 1924 and 1933.[51]

Even in 1923, the Railways Department admitted that it was overstaffed. "By the end of the 1920s, the cost of implementing the civilized labour policy became so embarrassing that the Board of the Railways and Harbours minuted that the Railways need no

[49]Lipton, *Capitalism and Apartheid*, pp. 86–88, 96–98, 258, 282.

[50]Standish and Standish, "Poor Whites and the Role of the State," pp. 148–50.

[51]Williams, *South Africa's War against Capitalism*, pp. 85–86; Standish and Standish, "Poor Whites and the Role of the State," pp. 151, 154, 159.

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longer record the cost of the policy."[52] However,

> Some public corporations found it impossible to continue the policy of labour recruitment based on socio-political, as opposed to economic criteria. . . . In 1932, ISCOR [Iron and Steel Corporation] announced that, handicapped by the Great Depression, it would no longer employ labour on *humanitarian* and not economic grounds and allowed blacks into its workforce.[53]

ISCOR's management, like most white South Africans at the time, regarded racial discrimination as the moral, even "humanitarian" policy, but was prevented from pursuing it by economic considerations. Since economic considerations exercised such a powerful influence even on a government corporation, it is no wonder that private businesses could not be forced to put morality above economics.

In 1933, the National Party fused with the South African Party to form the United Party, but in 1934, twenty right-wing Nationalists formed the *Gesuiwerde* (Purified) National Party (henceforth "NP" in this essay), which controlled South Africa from 1948 until the end of white rule.

In 1951, the Industrial Legislation Commission reported that blacks were replacing whites in the baking, furniture, millinery, sheet metal, and electrical businesses, and that blacks "largely dominate the semi-skilled market and have penetrated the sphere of skilled labour to a not inconsiderable extent."[54] The NP then introduced the first direct legislation to control the employment of non-whites in manufacturing and commerce, especially in skilled jobs. It consisted of monthly taxes on employers of urban Africans, and tighter restrictions on blacks entering and staying in towns and cities. However, the economy clearly could not function without black labor, including skilled black labor, so the government constantly granted *ad hoc* exemptions. This gave great arbitrary power to government officials, which the government consciously used as a means to silence business opposition to gov-

[52]Standish and Standish, "Poor Whites and the Role of the State," p. 162.
[53]Standish and Standish, "Poor Whites and the Role of the State," pp. 162–63, italics added.
[54]Lipton, *Capitalism and Apartheid*, pp. 39, 150.

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ernment policies. Indeed, Minister of Transportation Ben Schoeman called job reservation "a sword above an employer's head."[55]

Despite this sword over their heads, businessmen continued to fight government interference in their hiring practices, openly in political campaigns and covertly in their business practices. The Riekert Commission reported in 1979 that government officials complained about widespread illegal employment of black workers. It estimated that two-thirds of the clothing factories in the central Transvaal, the economic heartland of South Africa, were employing illegal black workers, and the situation in other industries was probably the same. In fact, businesses "even made provision in their tender prices for the payment of fines." It also reported that the overwhelming majority of employers complained that bureaucratic control of the black labor supply meant that they could not hire "suitable workers . . . within a reasonable time," that hiring black workers involved "cumbersome procedures linked with voluminous documentation," and that these problems were particularly acute for small businesses because they could not hire special staff to deal with labor recruitment. It therefore absorbed much of the time and energy of senior management. Businessmen also complained about the high salaries paid to the bureaucrats who controlled the labor supply. The Riekert Report conceded that government control of labor caused "all kinds of market failures," but concluded that it was an "absolutely essential social security measure; even though . . . the abolition of such control would lead to faster economic growth."[56] Fines on employers of illegal workers were therefore made heavier, and hundreds of employers were fined, despite the fact that government commissions repeatedly found such fines futile.[57]

The situation in non-manufacturing businesses was the same. For example, blacks were legally barred from skilled construction jobs in the early 1950s, and this bar was re-enacted in 1970. Nevertheless, the Industrial Tribunal reported in 1974 that it found

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[55]Williams, *South Africa's War against Capitalism*, pp. 77–79; Lipton, *Capitalism and Apartheid*, pp. 24–26.
[56]Riekert Commission, as cited in Lipton, *Capitalism and Apartheid*, pp. 151–53.
[57]Lipton, *Capitalism and Apartheid*, pp. 151–53.

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"alarming malpractices" on visiting building sites, with blacks "openly engaged" in nearly all types of skilled work. Hundreds of building employers were prosecuted, but the illegal employment of blacks in skilled construction jobs kept increasing.[58]

Before that, in the early 1970s, business pressure, black militancy, and international agitation brought the first relaxation of legal restrictions on hiring and promotion since 1948. The savings involved in hiring cheaper black labor could then be openly calculated and recorded; they were huge.[59]

Nevertheless, B.J. Vorster, the Prime Minister at the time, told Assocom (Associated Chambers of Commerce),

> Efforts to use business organizations to bring about basic change in government policy will . . . cause . . . harmful friction between the government and the private sector. You cannot ask me to implement policies rejected by the electorate.[60]

In fact, whenever the government's racial policies were attacked, its "two stock retorts" were that its opponents "were setting out to sabotage South Africa" and that in their "blind worship of *die Mammon van die geldmag*" (Mammon of the money power), they were "prepared to sacrifice white civilization."[61]

Vorster's predecessor, Hendrik Verwoerd (1958–66), "refus[ed] to address a major gathering of businessmen, whom he charged with 'paving the way for black domination' and denounced Assocom as traitors."[62] In a way, these accusations were unfair. Nearly all

> businessmen shared the dislike and fear of most white townsmen of the problems [especially crime] associated with rapid [black] urbanization and supported some

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[58]Lipton, *Capitalism and Apartheid,* pp. 33, 209; Williams, *South Africa's War Against Capitalism*, p. 105.

[59]Lipton, *Capitalism and Apartheid*, pp. 146–47, 208–9.

[60]Lipton, *Capitalism and Apartheid*, p. 179.

[61]Joanna Strangwayes-Booth, *A Cricket in the Thorn Tree: Helen Suzman and the Progressive Party of South Africa* (Bloomington: Indiana University Press, 1976), p. 210.

[62]Lipton, *Capitalism and Apartheid*, p. 151.

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> controls over entry, even while they complained about restrictions on the size of the labour pool and the mobility of *their* workers. Despite this ambivalence, their pressures were consistently for the erasing of controls.[63]

In order to control where blacks lived, white South Africans had to control the government. So when the editor of the *Rand Daily Mail* took a politically liberal (in addition to economically liberal) line, the newspaper's owners, who were mainly leaders of the mining industry, had him replaced.[64]

Ironically, though, it was Verwoerd, a brilliant intellectual and systematic thinker, who saw the long-range political consequences of the constant war that South African businessmen waged, both legally and illegally, against economic regulations. Similarly, in 1950, a conference of the Action Committee of the Dutch Reformed Churches, which were ardent supporters of *apartheid*, accurately predicted that blacks could not continue to be hired in low-skilled jobs without eventually entering higher-skilled jobs and then demanding political power.[65]

However, it was by no means only businessmen who violated laws which they thought socially desirable: "To build a house in Johannesburg meant either waiting for months for a white, expensive, legal building gang, or finding a black gang. . . . Most customers opted for the quicker, cheaper service."[66]

So whites acting as individuals undermined the one social goal that nearly all white South Africans agreed was necessary: maintaining residential segregation. When the 1950 Group Areas Act systematically entrenched the hodgepodge of previous *ad hoc* segregation laws, PM Malan called it "the kernel of apartheid."

Nevertheless, the urban black population constantly increased, as blacks were sucked into cities and towns by the insatiable desire of businesses for black labor, and of individual whites for domes-

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[63]Lipton, *Capitalism and Apartheid*, p. 150, italics in the original.

[64]Yudelman, "Industrialization, Race Relations, and Change in South Africa," p. 89.

[65]Williams, *South Africa's War Against Capitalism*, p. 13. D.F. Malan, the Prime Minister at the time and the inaugurator of *apartheid*, was an ordained Dutch Reform clergyman.

[66]Sowell, *Preferential Policies*, p. 30.

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tic servants. By 1970, more than two-and-a-half-times as many blacks lived in South African cities as in 1936, and nearly 14 times as many as in 1904. This rapid rise in black (and other non-white) urban residents caused a severe housing shortage in non-white areas, and a consequent willingness of non-whites to pay high prices for houses in legally white areas. By the middle 1980s, many urban neighborhoods that were *de jure* white had become *de facto* integrated, or even mostly non-white. Most of these neighborhoods were lower class and lower-middle class. While many of their white inhabitants supported extreme right-wing political parties, they nonetheless eagerly sold their houses to non-whites who offered above-market prices, and they cooperated in various legal subterfuges to circumvent the Group Areas Act.[67]

As was observed, nearly all white South Africans thought that, for social reasons, especially crime, they had to retain control of the government to protect themselves from a black inundation. However, the South African government's economic racial policies were designed overwhelmingly for Afrikaners. Most of the white workers whose jobs were protected from black competition were Afrikaners, as were the manual workers whom the government hired, at great cost, to displace black workers in the 1920s and 1930s, and, to a lesser extent, before that.

More numerous Afrikaner beneficiaries of government intervention in the economy were those in the civil service. In 1936, 59 percent of white civil servants were Afrikaners. However, the better-educated English-speakers controlled the higher civil service ranks. After the NP attained power in 1948, with 75–80 percent of the Afrikaner vote and a negligible English vote, the government became a means of providing white-collar, managerial, and professional employment for Afrikaners.

The civil service and the twenty-two public corporations, which supplied most of South Africa's iron, steel, electricity, telecommunications, railway services, weapons, petrochemicals, etc., were greatly expanded. The annual expenditure of teh public sector as a percentage of gross domestic investment rose from 36 percent in 1946 to 53 percent in 1976. By 1968, twice as many Afrikaners held government jobs as had twenty years earlier. By 1980,

[67]Williams, *South Africa's War Against Capitalism,* pp. 111–14.

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the government employed 34 percent of economically active white South Africans, and more than 80 percent of all government officials and 85 percent of the army's permanent personnel were Afrikaners (who make up 57 percent of the white population); less than 10 percent of the top positions were still held by English-speakers.

The government also indirectly provided managerial and professional employment for Afrikaners, through government contracts with Afrikaans businesses and firms of Afrikaans professionals (accountants, lawyers, engineers, architects, etc.). In fact, the boards of directors of Afrikaans businesses often included cabinet ministers, and interlocked with the boards of state corporations. Such government favoritism of Afrikaners over non-Afrikaners, who were often manifestly better qualified, was open and unashamed.[68]

Crucial to understanding this blatant favoritism is the fact that under NP rule, from 1948 until Nelson Mandela's presidency, all of South Africa's heads of state, most of its cabinet ministers and NP members of parliament, and nearly all heads of civil service departments and government-owned companies were members of the *Broederbond*. One of the requirements for membership in this "Band of Brothers" was a pledge to give preference to Afrikaner individuals and companies in economic, public, and professional life.[69]

Nevertheless, the NP (and the *Broederbond*, with which it was intertwined) had completely failed to accomplish its main goal since the 1930s: ending non-Afrikaner control of the economy. The ideal of *Volkskapitalisme* ([Afrikaner] people's-capitalism)

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[68]Lipton, *Capitalism and Apartheid,* pp. 24, 235, 277, 283–84, 312–13; H. Giliomee, "The Afrikaner Economic Advance," in H. Adam and H. Giliomee, eds., *The Rise and Crisis of Afrikaner Power* (Cape Town: David Philip, 1979), pp. 160–61, 164–66, 168; Sowell, *Preferential Policies*, p. 29; Yudelman, "Industrialization, Race Relations, and Change in South Africa," pp. 88–89.

[69]Giliomee, "Afrikaner Politics: How the System Works," in H. Adam and H. Giliomee, eds., *The Rise and Crisis of Afrikaner Power* (Cape Town: David Philip, 1979), pp. 247–49; Lipton, *Capitalism and Apartheid*, p. 283.

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was formulated in the 1930s. Like President Mandela's ideal, it sought to make ethnic advancement more important than profits. It "would entail Afrikaners owning the means of production, investing in and patronizing Afrikaans enterprises, and employing . . . Afrikaner workers." At the *Broederbond* economic congress of 1939, the stated aim was to "mobilize the *volk* [(Afrikaner) people] to conquer the capitalist system, and to transform it so that it fits our ethnic nature."[70]

In the 1930s, before the NP attained power, implementing this ideal involved NP-organized boycotts of Jewish and Indian traders, especially in small towns. However, as always, "while patriotic Afrikaners made some effort to 'buy Afrikaans,' the rank and file have been more interested in prices, quality, design . . . credit terms, and the location of the business." So, "despite all the demagoguery, the Afrikaner masses traded with Indians rather than with the less-competitive Afrikaner businesses."[71]

Although consumers chose economic self-interest over morality and patriotism, as they invariably do, white businesses did succeed in removing their Indian competitors through government legislation. In 1950, more than a half century of anti-Indian legislation supported by white (and Coloured) retailers and wholesalers culminated in the provisions of the Group Areas Act, which barred Indian businesses from central business districts in many towns and cities. Hostility to Indians was even greater among blacks, who saw them as "exploiters," than among whites and Coloureds, who saw them as "unfair" competitors. The only major race riot in South African history was the huge anti-Indian riot by blacks in Durban in 1949, in which 142 people were killed.

Although Indian shops had been forced to move to the outskirts of urban areas, they still prospered, because whites, Coloureds, and blacks still bought from them. Between 1950 and 1976, the number of moderate-sized Indian businesses in Natal,

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[70]Giliomee, "The Afrikaner Economic Advance," pp. 156–60. The original purpose of calling the congress was to raise money for poor Afrikaners. Typically, nine times more money was raised for Afrikaner businesses than for poor Afrikaners.

[71]Giliomee, "The Afrikaner Economic Advance," pp. 156, 167; Williams, *South Africa's War Against Capitalism*, p. 107.

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where most South African Indians live, rose from 120 to 900.[72]

Much more significant is that the NP totally failed to end Anglo-Jewish (especially Jewish) economic dominance, an economic enemy that was personified as "Hoggenheimer," a name derived from the name of the (racially) Jewish mining magnates, the Oppenheimers. Future PM Verwoerd, writing as editor of *Die Transvaler* in the 1930s, said that it was the Jews who were blocking Afrikaner economic well-being, and the regulations of the Transvaal branch of the NP explicitly excluded Jews from membership.[73]

Nevertheless, in 1987, after forty-nine years of the NP unscrupulously exploiting a monstrous government machine, Jews, who amounted to 2.3 percent of the white population, controlled corporations that accounted for 62 percent of the total capitalization of the shares listed on the Johannesburg Stock Exchange, English-speaking Gentiles controlled 27 percent, and Afrikaners only 17 percent.[74]

The beginning of this section had a quotation from President Mandela—an accusation that "our own society [is one] in which many are driven by the unhampered pursuit of self-interest, and . . . money has forcefully taken the place of fundamental values." Previously, this accusation had been constantly reiterated by Afrikaner nationalists and white racists. However, probably the most socially valuable human characteristic, the characteristic that saves us from self-destruction, is that when most people act individually, economic self-interest is stronger than morality. It is a great misfortune that this is often not true when people act collectively, and that there are people who have no interest in material self-aggrandizement, but are driven by the desire to purify social interactions and human nature and to enhance their countries' great-

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[72]Williams, *South Africa's War Against Capitalism*, pp. 106–11; Lipton, *Capitalism and Apartheid*, p. 268; Davenport, *South Africa*, pp. 513–14; Sowell, *Migrations and Cultures*, p. 330.

[73]Lipton, *Capitalism and Apartheid*, p. 269; Alan Paton, *South African Tragedy: The Life and Times of Jan Hofmeyr*, Dudley C. Lunt, abridg. (New York: Scribner, 1965), p. 201.

[74]*The Economist* (March 15, 1997): 50. These percents add up to more than 100 because of overlap.

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ness. If only Lenin, Stalin, Mao, and Hitler had cared about nothing but making as much money as possible, they would have devoted themselves to providing products and services that other people want, instead of murdering tens of millions of innocent, defenseless people.

THE UNITED STATES

Before the 1950s, businesses in the American South opposed or tried to circumvent state and municipal segregation laws because of the expense and effort involved in implementing them. A much-studied case is the resistance of railroad and streetcar companies (which were privately owned) to the laws passed between 1880 and 1910 requiring them to segregate their passengers by race.[75] In addition to non-compliance with these laws, the streetcar companies fought their legality up to the Supreme Court. They lost in *Plessy v. Ferguson* (1896), in which the Court ruled that "separate but equal" laws are constitutional, a ruling that was not reversed until *Brown v. Board of Education of Topeka* in 1954. The streetcar companies were accused of "as usual . . . putting profits ahead of the welfare of the region."[76]

Even before slavery was abolished, white Southern individuals put economic self-interest above racial prejudice. Throughout the antebellum South, white workers complained that they could not compete with the wages charged by free blacks. They demanded and sometimes got legal restrictions.[77]

In the 1960s, government-enforced anti-white discrimination replaced anti-black discrimination. As always, racial discrimination has "worked" in education. For decades, a black from a family in the highest ten percent of the American population in socioeconomic status has been given preference in university admission

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[75]Jennifer Roback, "The Political Economy of Segregation: The Case of Segregated Streetcars," *Journal of Economic History* 46 (1986): 893–917.

[76]Edward L. Ayers, *The Promise of the New South: Life after Reconstruction* (New York: Oxford University Press, 1992), p. 143, 144, 433.

[77]Thomas Sowell, "Three Black Histories," in Thomas Sowell, ed., *Essays and Data on American Ethnic Groups* (Washington D.C.: The Urban Institute, 1978), p. 20; Jared Taylor, *Paved with Good Intentions* (Carrol & Graf: New York, 1992), pp. 28–29.

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over a white from the lowest ten percent. At every educational level, the average IQ of American blacks is more than a standard deviation (SD) below that of whites at the same level, usually much lower, with Latinos in between but closer to blacks than to whites. The average racial difference for people with advanced degrees is 1.6 SD. The average black American with a post-baccalaureate degree has approximately the same IQ as the average white American who has no more than a high school diploma. To express that another way, a white who is intelligent enough to graduate from high school would be intelligent enough to get a post-baccalaureate degree if he were black.[78]

Who employs most of these affirmative-action black university graduates? The answer will not surprise anyone who knows anything about economics or discrimination elsewhere. More than 60 percent of black American professionals work for the government compared to a quarter of white professionals.[79] In fact, 22.8 percent of all blacks in the American labor force are government employees, compared to 14.6 percent of whites, and black overrepresentation among government employees keeps growing.[80]

The concentration of blacks, and especially of university-educated blacks, in government employment is especially remarkable in view of the enormous pressure on businesses since the middle 1960s to hire and promote blacks, and the massive assistance that has been given to black-owned businesses. In 1995 alone, $5.8 *b*illion in federal procurement funds were shovelled into just one of

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[78]Herrnstein and Murray, *The Bell Curve*, pp. 216, 319–22, 463–68, 488, 502–3, 758 n. 27, 764 n. 41; L. Gottfredson, "Societal Consequences of the g Factor in Employment," *Journal of Vocational Behavior* 29 (1986): 398–406.

[79]Dinesh D'Souza, *The End of Racism: Principles for a Multiracial Society* (New York: Free Press, 1995), pp. 495–96. The proportion of black professionals who work for the government is often reported as half. In fact, half of black professional men and two-thirds of black professional women are government employees. Among blacks who work, the proportion of professional women is 46 percent greater than the proportion of professional men, and many more black women work than black men. See Taylor, *Paved with Good Intentions*, p. 25; also see *Journal of Blacks in Higher Education* (Summer 1998): 86–87.

[80]Thernstrom and Thernstrom, *America in Black and White*, pp. 188–89.

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the many set-aside programs for "minority"-owned-and-controlled businesses—the one for "small, disadvantaged businesses," most of whom did not have to bid against competitors. The federal government is by far the largest consumer in the United States, contracting with private firms for huge amounts of military and civilian building, and buying everything from paper clips to toilet paper to airplanes. Every American state and most cities have similar programs. Despite this massive assistance, only 3.7 percent of blacks in the labor force are self-employed, as opposed to 9.5 percent of whites and a much higher proportion of Jews, Armenians, and Orientals. Moreover, 60 percent of the revenue of black-owned businesses derives from the government. Government assistance to minority-owned businesses is usually justified as providing the start they need to compete in the private sector. In fact, few minority-owned recipients of government contracts survive on their own.[81]

Who are the beneficiaries of American affirmative action? Again, the answer will not surprise anyone familiar with affirmative action elsewhere. Systematic studies have shown no significant benefits to the general black American population from affirmative action. Its supporters usually defend it by citing the black poverty rate, and especially the terribly high rate of unemployment among black men in their late teens and early twenties, which is supposedly a major contributor to black crime and illegitimacy. (There is no reason for an unemployed man to marry the mother of his children, or for her to want him to marry her.) However, the proportion of blacks living in poverty declined from 87 percent in 1940 to 47 percent in 1960, and to 30 percent in 1970. Since the inauguration of pro-black discrimination, the racial gap in median income, labor-force penetration, and joblessness has widened, the black poverty rate has not declined at all, and unemployment among black men in their late teens and early twenties is now much worse than it was in the 1950s.[82]

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[81]Thernstrom and Thernstrom, *America in Black and White*, pp. 440–42, 459; D'Souza, *The End of Racism*, pp. 495–96; Clint Bolick, *The Affirmative Action Fraud: Can We Restore the American Civil Rights Vision?* (Washington, D.C.: Cato Institute, 1996), pp. 60–61.

[82]Thernstrom and Thernstrom, *America in Black and White*, pp. 233–34, 245–47, 443–44, 450, 538; see also pp. 80–84, 194–97.

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Black columnist William Raspberry summed up the irony of affirmative action when he pointed out that upper- and middle-class blacks cite statistics "to prove that blacks in the aggregate are under-represented in college, graduate school or top management." As a result, "black executives who hold good jobs get promoted to better ones; blacks who already sit on important corporate boards get other directorships. The people who provide the statistical base get nothing."[83]

Let us look at some of the beneficiaries of affirmative action. The most obvious are the many individuals who have obtained affirmative-action university degrees and then affirmative-action professional and managerial jobs, mostly in the government. But other blacks have also benefited. In the federal set-aside program mentioned above for "small, disadvantaged businesses," none of the beneficiaries has ever been white, but one black-owned company received $440 million. A September 1994 audit of 50 of these "small, disadvantaged businesses" found that 35 of the 50 owners had a net worth of more than a million dollars and five lived in houses valued at more than $800,000. This audit was part of an official review of affirmative action by two high-ranking members of the Clinton administration. On the basis of this review, they insisted unconditionally that no affirmative action programs be curtailed, and President Clinton accepted that recommendation.[84]

Furthermore, the legal maximum wealth that an owner of a "small, disadvantaged businesses" can have to be eligible for this program is much less than for many other government programs. For instance, in the program by which the owner of a "small disadvantaged business" gets a government contract if his bid is less than 10 percent higher than the bid of a business owned by a non-Hispanic white, the maximum net worth of the owner of the owner of a "small, disadvantaged businesses" is three times as high.[85]

Many white businesses have also benefited from affirmative action. They benefit not by providing products and services that

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[83]William Raspberry, *Wilmington News Journal* (August 30, 1990).

[84]Thernstrom and Thernstrom, *America in Black and White*, pp. 424, 442–43, 458, 460.

[85]George R. La Noue, "To the 'Disadvantaged' Go the Spoils," *The Public Interest* 138 (2000): 91–98.

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other people want, but by finding ways to use affirmative action laws, sometimes legally, sometimes illegally. When the U.S. Department of Transportation studied the composition of the companies that got work between 1982 and 1984 that was "set-aside" for minority-owned building firms, they found that half were ineligible or questionable.[86]

In Atlanta, Georgia, the going rate that white construction firms pay to blacks to sign contracts for them is 15 percent of the contract's value. The extra 15 percent is paid by taxpayers, in addition to the cost of not contracting with the lowest possible bidder. In 1995, one contractor estimated that a building job that cost $60,000 in a nearby county, where the lowest bidder got the job, would cost $100,000 in Atlanta. Other black and white businesses and politicians have profited by the bribery and kickbacks that affirmative action laws encourage.[87]

Affirmative action also provides lucrative employment to many administrators and lawyers, since enforcement is complex and litigation is constant. Each year, about six thousand affirmative action lawsuits are initiated at a cost of $300 million.[88]

Even the cost to contractors of trying to handle the complex regulations of the Office of Federal Contract Compliance Program (OFCCP) is considerable—6.5 percent of total costs, according to a study by the Arthur Anderson accounting firm. And the OFCCP regulates the affirmative action programs of nearly 200,000 government contractors and subcontractors, with about 26 million employees (24 percent of the entire American workforce).[89]

If the reader suspects that this estimate was exaggerated by some sort of anti-government bias, I will observe that, in 1993, the

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[86]Taylor, *Paved with Good Intentions*, p. 139; Herman Belz, *Equality Transformed* (New Brunswick, N.J.: Transaction Publishers, 1991), p. 201.

[87]Thernstrom and Thernstrom, *America in Black and White*, pp. 424, 443, 451.

[88]Richard Epstein, *Forbidden Grounds: The Case Against Employment Discrimination Laws* (Cambridge, Mass.: Harvard University Press, 1992), p. 259.

[89]Bob Zelnick, *Backfire: a Reporter's Look at Affirmative Action* (Washington, D.C.: Regnery, 1996), pp. 29, 44.

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Task Force on Reinventing Government, appointed by President Clinton and chaired by Vice President Gore, estimated that the "cost to the private sector of complying with regulations is at least $430 *b*illion annually—9 percent of our gross domestic product."[90]

Bates and Williams, in an article extremely well disposed toward government assistance to minority-owned businesses, and that praises Atlanta for its "ambitious and innovative MBE [Minority Business Enterprise] procurement programs," summed up the situation:

> In many areas of the country, the facade of statistical success in preferential procurement rests on a foundation of misinformation and fraud. According to the Baltimore County Grand Jury, "A great number of certified minority businesses have traded the opportunity to gain a foothold in the construction industry for the quick profit available from selling the use of their MBE name to nonminority firms." . . . While the nonminority firms that sell to state/local government are much more likely to remain in business than other firms, this positive relationship . . . is entirely lacking for MBEs. . . . The MBE vendor groups with the highest government mean sales was [*sic*] construction. . . . [Among them] government sales . . . [are] a negative and statistically significant determinant of firm survival. Among MBE construction firms, selling to the government is clearly associated with going out of business. Indianapolis . . . conducted extensive field audits of MBEs holding city contracts in 1992. Thirty percent . . . had their certificates revoked as a result.[91]

So far I have been discussing only one type of government support to minority-owned businesses: government contracts. There are many others. For example, the federal government and many states and municipalities force banks to make a substantial proportion of their loans in black neighborhoods. Significantly, black-owned banks direct a considerably smaller proportion of

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[90]Vice President Albert Gore, Jr., ed., *From Red Tape to Results: Creating a Government That Works Better and Costs Less* (Washington, D.C.: U.S. Government Printing Office, 1993), p. 32.

[91]T. Bates and D. Williams, "Preferential Procurement Programs and Minority-Owned Businesses," *Journal of Urban Affairs* 17(1995): 7.

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their investments to black neighborhoods, black-owned businesses, and black individuals than do white-owned banks. The reason can only be that they are under less government pressure than are white-owned banks to consider race and ethnicity.[92]

The final questions must always be: Why have black-owned businesses not been able to prosper on their own, and why do blacks remain poorer than whites? The media frequently report studies that claim to show anti-black discrimination in hiring, promoting, lending money, etc. These claims receive massive, uncritical coverage, and then are proven to be unfounded.[93]

However, anyone who knows anything about racial discrimination in other countries would know that it could not explain the economic situation of black Americans. Surely, white Americans cannot be as bigoted as white businessmen in white-dominated South Africa were generations ago (or even more recently), who constantly risked and paid heavy fines to hire black workers and promote them to skilled positions, or as rural Afrikaners in the 1930s, who ignored the appeals of their elected political leaders to boycott Jewish and Indian traders and patronize Afrikaans-owned businesses, or than Afrikaans farmers, who formed the core of support and leadership for extreme right-wing parties but hired black managers and skilled black workers instead of unemployed rural Afrikaners.

I mentioned above the extensive frauds in Atlanta, Georgia, through which white businesses win contracts with the city government. The population of Atlanta is more than two-thirds black, and, since 1974, it has had a black mayor, a mostly black city administration, and an extremely vigorous affirmative action program, in addition to the federal affirmative action programs it falls under. Surely, discrimination cannot account for the inability of black businesses in Atlanta to take advantage of these programs.

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[92]Taylor, *Paved with Good Intentions*, pp. 57, 184–87; Walter Williams, *The State Against Blacks* (New York: McGraw Hill, 1982), pp. 29–30.

[93]D'Souza, *The End of Racism*, pp. 276–81; Zelnick, *Backfire*, pp. 321–33; Thomas Sowell, *The Vision of the Annointed: Self-Congratulation as a Basis for Social Policy* (New York: Basic Books, 1995), pp. 40–42; Thernstrom, *America in Black and White*, pp. 446–49, 503–5; H.Rosin, "Cultural Revolution at Texaco," *The New Republic* (February 2, 1998): 15–18; Taylor, *Paved with Good Intentions*, pp. 55–56, 59–61.

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These *a priori* considerations are supported by empirical data. In 1989, the Supreme Court ruled in *City of Richmond v. Croson* that city and state governments could use racial criteria for contracts only to redress past discrimination, which included "passive discrimination," when a government had not ended private discrimination in its jurisdiction. In the decade that followed, state and municipal governments spent $55 million of taxpayer money for 140 studies to prove past discrimination. The federal government's Urban Mass Transit Authority spent an additional $14 million. Also not included in the $55 million is Atlanta's $532,000, 1034-page study, which covered the city's contracting history from the Civil War. Significantly, a city in the Deep South had to go back to the Civil War to try to find evidence of government discrimination, including passive discrimination. More significantly, not a single one of these studies that has been brought to a trial has ever been found to be valid. But their validity is irrelevant to their purpose.[94]

> No matter how poorly done, a several-hundred-page disparity study "proving discrimination" will quiet critics in the political and business community, just by its existence. Few will actually read it and fewer will have the time or tools to analyze it. Once a study exists, the relatively . . . inexpensive trial tactic of seeking a preliminary injunction is usually eliminated. A case . . . involving a disparity study will end up as a costly duel of experts, with the jurisdictions having an enormous advantage in intellectual and fiscal resources [supplied by the taxpayers]. If the contractor wins, the jurisdiction may commission a new study and put the program back in place, until challenged again in court.
>
> There are considerable risks for a . . . contractor challenging an MBE program. The litigation will be long, costly, and uncertain in outcome. The lawsuit may be politically risky . . . since the charge of racism will often be made against the plaintiff. Further, [he is] suing . . . the government, which controls so much of the environment in which contractors work. Contractors [have been] . . . warned by politicians not to challenge MBE

[94]George R. La Noue, "Social Science and Minority 'Set-Asides'," *The Public Interest* 111 (1993): 49–61; La Noue, "To the 'Disadvantaged' Go the Spoils," p. 95; Taylor, *Paved with Good Intentions*, pp. 139–40.

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> programs. . . . Jurisdictions have proven adept at protecting their overall program by granting waivers or settling out-of-court before a ruling is made. . . . When, after three days of trial, the Dade County study was shown to have serious flaws, the county paid $490,000 settlement to the plaintiffs so it could continue its program.[95]

Dade County, like Atlanta, is in the Deep South, but it could not come up with a report of past discrimination that could withstand three days of trial. New York also paid for a huge study that proved nothing. Nevertheless, Mayor Dinkins then announced that although there would be no quotas, 20 percent of city contracts would go to businesses owned by minorities and women. San Francisco's report also could find no evidence of past discrimination, but its mayor told department heads that their budgets would be slashed if 12 percent of their suppliers were not minority-owned businesses. Memphis began an MBE set-aside program in 1993. In that year, the states of New York and New Jersey reinstated their set-aside programs, which they had suspended because of *Croson*.[96]

In 1995, in *Adarand Constructors v. Peña*, the Supreme Court, in essence, extended the *Croson* ruling to the federal government. The federal government immediately spent $1.7 million to try to find evidence of past discrimination, in order to justify present discrimination.[97] This search was necessary since, when the minority business set-aside law was passed, the only evidence for the prior discrimination that the law's supporters offered was the small proportion of contracts that minority contractors had obtained. They did not offer even anecdotal evidence of past discrimination.[98] In 1996, the Justice Department proposed a study for each industry to show "the level of minority contracting that one would reasonably expect to find in a market absent discrimination or its effects." In 1998, after two years of research, the Department of Commerce

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[95]La Noue, "Social Science and Minority 'Set-Asides'," p. 61.

[96]Taylor, *Paved with Good Intentions*, pp. 139–41; La Noue, "Social Science and Minority 'Set-Asides,'" pp. 55–56; Bates and Williams, "Preferential Procurement Programs and Minority-Owned Businesses," p. 2.

[97]Terry Eastland, *Ending Affirmative Action* (New York: Basic Books, 1996), p. 191.

[98]Epstein, *Forbidden Grounds*, pp. 429–30.

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issued the study. It proposed that the 10 percent advantage for bids from minority businesses be extended to nearly three-quarters of the $180 billion procurement budget. Incredibly, this study, which was of such constitutional and budgetary importance, was only twelve pages. Despite repeated attempts, Congress could get no information on how the study was conducted. But enough data have been forced out of the Justice Department by litigation to see that the study's methodology was blatantly flawed, and its conclusions often deliberately fraudulent. One point that the Justice Department did state clearly was that it could find not one instance of anti-minority discrimination by a federal procurement officer. The Commerce Department is preparing a new study. To support it, the government is paying private consulting firms to recruit 30,000 minority-owned businesses *a year* to seek certification as "small disadvantaged businesses" (SDBs). Since the premise on which these studies is based is that "absent discrimination or its effects," the same proportion of SDBs would receive government contracts as the proportion of SDBs in that industry, the huge increase in the number of SDBs will prove that many more should be granted government contracts.[99]

So American federal, state and municipal governments spend huge amounts of white taxpayers' money to enable them to continue discriminating against whites by awarding contracts to companies that will cost taxpayers more to do work than the companies who would have gotten the work if there were no discrimination.

But the question imposes itself again and even more strongly: why are black-owned businesses so few and feeble, even in mostly black cities? Why must the various governments of the United States resort to expensive frauds to enable them to practice massive pro-black discrimination?

Most black Americans say in surveys that they prefer to buy products made by black-owned businesses. However, only four percent of their spending goes to black-owned businesses, and attempts by black-owned business to increase that proportion have failed.[100] Here, the Malaysian situation provides an illuminating

[99]La Noue, "To the 'Disadvantaged' Go the Spoils."

[100]D'Souza, *The End of Racism*, pp. 495–96; L. Wynter, "Business and

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analogy. Malays continue to do business with Chinese rather than Malays despite resentment at Chinese success that is so intense that it is often manifested in violence. Similarly, a black American is 56 times more likely to commit a violent crime against a white American than *vice versa*. But that statistic seriously understates the true ratio because the United States government classifies 91 percent of American Hispanics as white; Hispanics compose 12 percent of the American population, and have a crime rate three-and-a-half times as high as non-Hispanic whites.[101]

Yet blacks continue to do business with whites rather than with blacks.

NAZI GERMANY: THE ULTIMATE TEST

For a long time before the Nazis attained power, nearly all Germans thought that Jewish overrepresentation in German economic, professional, and cultural life was a serious problem. In 1880, Portugese novelist Eça de Queiroz observed:

> The motive of this anti-Semitic fury [in Germany] is simply the growing prosperity of the Jewish colony. . . . High finance and small business are both in [Jewish] hands. . . . In the liberal professions he absorbs everything: he is the lawyer with more briefs and the doctor with more patients.[102]

A year earlier, the *Antisemiten Liga* (League of Anti-Semites), the first organization anywhere to have the term "anti-Semite" in its title, began its program by explaining:

> The purpose of the association formed under the title "League of Anti-Semites" is to . . . strive . . . toward the one aim of saving our German fatherland from complete Jewification . . . by making it its task to force the Semites

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Race," *Wall Street Journal* (August 17, 1994): B1.

[101]These and many other facts on ethnic and racial crime in the United States can be found in a report, based on federal and state crime statistics, entitled "The Color of Crime." It can be ordered for $5, which includes shipping, by telephoning (703) 716-0900 or emailing AR@amren.com.

[102]Eça de Queiroz, quoted by Fritz Richard Stern, *Gold and Iron: Bismarck, Bleichröder, and the Building of the German Empire* (New York: Knopf, 1977), p. 519.

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> back into a position corresponding to their numbers.[103]

Also in 1879, Adolf Stöcker founded the first anti-Semitic mass movement. In his first anti-Semitic speech, he summarized the Jewish problem:

> Jews . . . control the arteries of money, banking and trade; they dominate the press and are flooding the institutions of higher learning.[104]

The next year, he summarized the Jewish problem anecdotally:

> Recently a corpse was found. . . . The corpse was examined—and at hand were a Jewish physician, a Jewish surgeon, a Jewish judge, a Jewish lawyer—only the corpse was German.[105]

The Nazis called the Holocaust "the final solution [*Endlösung*] of the Jewish problem," and this was the problem that it was designed to solve. In 1922, Hitler said:

> The million workmen who were in Berlin in 1914 . . . [are now] thinner, worse clad, poor; but the 100,000 Jews from the East who entered Germany in the early years of the War arrived in poverty, and they are now "made men" riding in cars.[106]

In 1928, Hitler said:

> We see that in Germany Jewification progresses in literature, the theater, music and film; that our medical world is Jewified, and the world of our lawyers too; that in our universities ever more Jews come to the fore.[107]

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[103]Quoted by Peter G.J. Pulzer, *The Rise of Political Anti-Semitism in Germany and Austria* (London: P. Halban, 1988), rev. ed., p. 49.

[104] See Paul W. Massing, *Rehearsal for Destruction: A Study of Political Anti-Semitism in Imperial Germany* (New York: Harper, 1949), p. 286.

[105]Adolf Stöcker, *Die Juden Frage (The Jewish Question)* (Berlin, 1880), p. 138.

[106]Adolf Hitler, *The Speeches of Adolf Hitler, April 1922–August 1939: An English Translation of Representative Passages Arranged Under Subjects*, Norman H. Baynes, ed. (London & New York: Oxford University Press, 1942), p. 7.

[107]Quoted in Friedländer, *Nazi Germany and the Jews*, p. 102.

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In 1935, Hitler justified the Nüremburg Laws, the most stringent anti-Jewish regulations enacted until that time, with the observation:

> This legislation is not anti-Jewish, but pro-German. The rights of Germans are thereby to be protected. . . . The Jews, who formed less than one percent of the population, tried to monopolize the cultural leadership of the people and flooded the intellectual professions, such as law and medicine.[108]

Albert Speer, Minister of Armaments during the war and Hitler's personal architect, was as close personally to Hitler as anyone could be. In the Foreword to his memoirs, *Inside the Third Reich*, Speer says that his purpose is "to reveal some of the premises which almost inevitably led to the disasters" and that *the* Nazi crime was the murder of the Jews. He constantly stresses that he subjected himself to twenty years of unrelenting and unforgiving self-analysis while in jail following the War. He says that when he joined the Nazi Party and afterwards, "I was not an anti-Semite; rather, I had Jewish friends from my school days and university days, like virtually everyone else."[109] The terrible crime with which he reproaches himself is ignorance of the murder of the Jews, ignorance for which he says "No apologies are possible."[110] He says that his culpable ignorance began when he joined the Nazi Party in 1931 without having read its programs. This was inexcusable because "had I only wanted to, I could have found out even then that Hitler . . . was a rank anti-Semite." He explains that he could not have known that from the Nazis' public statements because

> The party at that time was confining itself . . . to denouncing what it called the excessive influence of the Jews upon various spheres of cultural and economic life. It was demanding that their participation in these various areas be reduced to a level consonant with their percentage of the population. . . . . At that time I was no more an anti-Semite than I became in the following years. In none of my speeches, letters, or actions is

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[108] *The Speeches of Adolf Hitler*, p. 733.

[109] Albert Speer, *Inside the Third Reich*, (New York: Macmillan, 1970), p. 16.

[110] Speer, *Inside the Third Reich*, pp. 112–13, 376.

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there any trace of anti-Semitic feeling or phraseology.[111]

Speer prided himself on two decades of pitiless self-examination and rigorous analysis of the premises that caused the Holocaust, but it never occurred to him that there was anything wrong, unreasonable, immoral, or even anti-Semitic about reducing the proportion of Jews in German economic and cultural life to their proportion in the German population (less than three-quarters of one percent). If Speer felt this way in the context of his memoirs, how much more did the vast majority of Germans feel that way at the time?

Hjalmar Schacht, German Economics Minister from the middle of 1934 until late 1937, provides another striking example. Like Speer, he was, or at least claimed to be, a non-ideological technocrat. After the War, the Nüremberg Tribunal acquitted him, accepting, as do most historians, his claim that he tried as best he could to shield individual Jews and Jewish economic activity from the anti-Semitic assaults of the government for which he worked. He makes the same point in his autobiography, *76 Jahre meines Lebens*, published in 1953. However, he also wrote,

> No one begrudged him [the Jew] the fact that he could freely engage in commerce and industry. But when the legal and medical professions showed an unusually high percentage of Jews . . . [and the theater, the press, and music] were under Jewish control, then this constituted the incursion of an alien spirit into the spirit of the host people.[112]

Similarly, Thomas Mann wrote in his diary on April 9, 1933, "[It is] no great misfortune that Jewish domination of the legal system has been ended. . . . I could to some extent go along with the rebellion against the Jewish element."[113] Shortly afterward, Mann resigned from the Prussian Academy of Arts rather than take an oath of loyalty to the Nazi regime, and went into exile from Germany with his Jewish wife.

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[111]Speer, *Inside the Third Reich,* pp. 19–20.

[112]Hjalmar Schacht, *76 Jahre meines Lebens* (*My First 76 Years*) (Bad Worishofen: Kindler und Schiermeyer, 1953), p. 450.

[113]Thomas Mann, *Diaries, 1918–1939* (London, 1984), p. 150.

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In assessing the failure of the Nazis' pro-Aryan affirmative action policy, the views of these Germans, who prided themselves on not being anti-Semites, must be kept in mind.

As is typical of discrimination, the Nazis easily forced Jews out of government employment, where they had always been few, soon after they attained power. The Nazis also forced the Jews out of the universities, where they had been extremely numerous. Nazi Education Minister Rust pointed out that before the Nazi takeover:

> The most important chairs at so-called German universities were filled with Jews. Positions were vacated [by Aryans] to allow them [Jews] to pursue their parasitic activities, which were then rewarded with Nobel Prizes.[114]

However, ousting Jews from the professions and business was incomparably more difficult. By March 1933, in many cities, Jewish lawyers were being dragged from their offices and even from courts during proceedings and beaten.[115] But sporadic violence did not satisfy the eagerness of Gentile lawyers to rid themselves of Jewish competition. At its March 14, 1993 convention, the League of National Socialist Lawyers called for a purge of all courts, and for new elections to the bar associations to make sure they were "free of all Jews and Marxists." (The number of Marxist lawyers was negligible.) The National Association of Lawyers excluded Jews, and prohibited its members from operating joint practices or sharing joint premises with Jewish lawyers. On March 21, Prussian Commissar Hans Kerrl ordered that the proportion of Jewish lawyers who could practice "correspond . . . to the proportion of Jews in the rest of the population." Even before April 7, when the Law for the Reestablishment of the Civil Service excluded Jews from government employment, Jewish judges and district attorneys were "requested to take a short vacation."[116]

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[114]Cited in Saul Friedländer, *Nazi Germany and the Jews* (New York: harper Collins, 1997), p. 57. During the Weimar Republic (1919–1933), of the nine Germans who won Nobel Prizes, five were Jewish. Jews comprised 0.74 percent of the German population.

[115]K.H. Jarausch, "Jewish Lawyers in Germany, 1848–1938: The Disintegration of a Profession," *Year Book of the Leo Baeck Institute* 36 (1991): 181–82.

[116]Avraham Barkai, *From Boycott to Annihilation: The Economic Strug-*

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Violence, legal and professional exclusion, and the (justified) fear by potential clients that courts would be biased against their cases if they were represented by Jewish lawyers took a heavy toll. By June 1933, 30 percent fewer German Jewish lawyers were practicing than in February, but they still constituted 16.25 percent of all German lawyers, 22 times the proportion of Jews in the German population. And that ratio is calculated on the premise that the German Jewish population was the same in June as in February, which it was not.[117]

By 1935, Jewish lawyers were prohibited from representing even Jewish clients as court-appointed lawyers for the indigent, defense lawyers, and trustees in bankruptcy proceedings. However, in 1937, 55 percent of Jewish lawyers who had been practicing in the beginning of 1933 were still working. The Jewish population of Germany had declined by 27 percent. Furthermore, more than 60 percent of the emigrants were between 20 and 45 years old, and most were men. By 1939, the ratio of German Jewish women to men was 1.37 to 1. If only the number of Jewish men of working age is considered, Jewish overrepresentation in the legal profession with respect to their proportion of the general population was probably not much less in 1937 than it had been in June 1933.[118]

Restrictions against Jewish doctors began to be enacted at the same time as those against Jewish lawyers. On April 7, 1933, the mayor of Munich announced that Jewish doctors working for the government could practice only on Jewish patients. On April 22, the Baden Medical Association announced that all Jewish doctors would be dismissed from official posts, and that they henceforth could practice only on Jews. During the next few months, Germany's other states enacted similar restrictions. In many cities, including Berlin, welfare offices were told not to refer patients to

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gle of German Jews, 1933–1943, William Templer, trans. (Hanover, N.H.: University Press of New England, 1989), pp. 15–16; Jarausch, "Jewish Lawyers in Germany, 1848–1939," p. 180. Friedländer, *Nazi Germany and the Jews*, p. 29.

[117]Friedländer, *Nazi Germany and the Jews*, p. 29; Barkai, *From Boycott to Annihiliation*, pp. 3–4, 25–28.

[118]Barkai, *From Boycott to Annihilation*, pp. 55, 68, 154.

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Jewish doctors. In May 1934, the national government barred Jewish doctors, as well as non-Jewish doctors who were married to Jews, from various government-supported health insurance plans. This meant that patients in these programs could no longer be reimbursed for the medical expenses incurred with a Jewish doctor. This was an extremely serious blow. In 1928, 33 percent of all Germans were in these programs, and the Nazis increased that proportion rapidly when they attained power.

The same exclusion was applied to Jewish dentists in February 1935. The government also urged the public to avoid Jewish doctors. By July 1935, the radical Party press was demanding the death penalty for Jewish doctors who treated Gentile patients. Meanwhile, "Time and again, Jewish doctors were picked up at their homes or from the street and taken to camps or jails, sometimes never to be seen again." In many cases, no charge was brought against the arrested, but a common accusation was made that Jewish doctors were taking sexual advantage of female patients, nurses, and receptionists. Gynecologists and obstetricians were those most at risk from this accusation.[119]

The Nüremberg Law of September 1935 and the consequences that followed from it were another serious blow to the occupational viability of Jews, especially Jewish doctors. The outlawing of sexual relations between Jews and Gentiles increased the frequency and gravity of accusations of sexual misconduct. Moreover, no Jew was allowed to employ a Gentile woman under the age of 45. That meant that many Jews lost the service of their secretaries, receptionists, and (in the case of doctors) nurses. Then, the Reich Physicians' Ordinance of December 13, 1935, formalized explicitly what had been unofficial policy for some time. No one who was one-quarter or more Jewish could be licensed to practice medicine as long as the proportion of Jewish doctors exceeded the proportion of Jews in the population.[120]

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[119]Robert Proctor, *Racial Hygiene: Medicine under the Nazis* (Cambridge, Mass.: Harvard University Press, 1988), pp. 91, 144, 148; Barkai, *From Boycott to Annihilation*, pp. 26, 29–30, 56; Michael H. Kater, *Doctors under Hitler* (Chapel Hill: University of North Carolina Press, 1989), p. 189–92.

[120]Kater, *Doctors under Hitler*, pp. 193–95.

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Innumerable subsequent local and national, legal and extra-legal impediments were put in the way of Jewish doctors. Typical examples are: in October 1936, a national law forbade state officials from visiting Jewish doctors; in July 1936, the Labor Front of Hamburg denied reimbursement for medical certificates from Jewish panel doctors; a month later, the local panel fund of Dresden prompted patients to choose only Aryan doctors; in Hamburg in 1937, Party members were stationed in front of Jewish doctors' offices and registered the name of every Gentile visitor.[121]

In addition, German Gentile doctors were as ready as German Gentile lawyers to use whatever means they could to rid themselves of Jewish competition, including hiring thugs to smash the offices and equipment of their Jewish colleagues. This was illegal, but Jewish victims were rarely able to obtain legal redress. Between 1933 and 1945, three times more doctors were members of the Nazi Party, and at least seven times more were members of the S.S. than their proportion of the general population. (The only occupation whose members were more disproportionately represented in the S.S. was lawyers, twenty-five times their proportion of the population.)[122]

These governmental and professional measures reduced the number of Jewish doctors considerably. By early 1934, the proportion of German doctors who were Jewish was down to 11.4 percent, but that was still 15 times the proportion of Jews in the German population. And, again, that ratio is calculated on the premise that the German Jewish population was the same as it had been a year earlier, which it was not. Even in June 1937, 10 percent of German doctors were Jewish.[123] As in the case of the legal profession, Jewish overrepresentation in the medical profession with respect to the proportion of Jewish men of working age in the general population was probably not much less in 1937 than it had been in 1933.

Restrictions and harassment of Gentiles consulting Jewish doc-

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[121]Kater, *Doctors under Hitler*, p. 195.

[122]Kater, *Doctors under Hitler*, pp. 54–55, 68–70, 199, 242–44; Michael H. Kater, "Everyday Anti-Semitism in Prewar Germany: The Popular Bases," *Yad Vashem Studies* 16 (1984): 150–53.

[123]Kater, *Doctors under Hitler*, pp. 187, 221.

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tors and lawyers were earlier and more stringent than those against Jewish clients. Clearly, though, many German Gentiles sought the services of Jewish doctors and lawyers despite the barriers put in their way, sometimes even violating the law to do so, and often preferred Jewish doctors to Gentile doctors, even though fees paid to Gentile doctors were reimbursed by the government, while fees paid to Jewish doctors were not.

Thus, despite the generations-old idea held by nearly all German Gentiles that Jewish overrepresentation in the professions was a serious problem, many obviously regarded Jewish professionals to be so superior to Gentile professionals that it was to their self-interest to prefer them to Gentile professionals no matter what the impediments. That is why there had always been so many Jewish professionals, and why they had been extremely successful.

The German government finally terminated most professional activities by Jewish doctors and lawyers in late 1938, although even after that it allowed exceptions.[124] The question is why it waited so long. The statistics on the number of German Jewish professionals are from the German government. Thus, government officials knew that their attempts to solve the problem of Jewish overrepresentation were being circumvented on a massive scale. Yet, solving that problem was their highest priority, and was a goal that much more moderate anti-Semites had constantly insisted was vital.

That the Nazis were embarrassed by the slowness with which they solved this crucial problem is obvious from the following passage in a 1942 textbook written by Rudolf Ramm on the professional, ethical, and legal responsibilities of the doctor, which was required reading for all German medical students.

> One of the first measures of the National Socialist medical leadership [in 1933] was cleansing the profession from politically unreliable and racially foreign elements. . . . When one reflects on the fact that in 1933, among 50,000 physicians active in Germany, 13 percent were Jewish, and that in Berlin, this was more than 60 percent; if we consider Austria, too, where the figures for Vienna were close to 67 percent, then one gets a sense of the enormous influence wielded by the Jew within medicine. . . . Today, however, one can al-

[124]Barkai, *From Boycott to Annihilation*, pp. 121–22.

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> ready see what a blessing it has been that the Jews were forcibly excluded from the vital professions.[125]

Ramm greatly exaggerated the speed with which the Nazis solved this problem in order to hide the embarrassing fact that they compromised their often-stated and deeply felt principles by taking so long to solve the Jewish problem in medicine. There is only one explanation for why they sacrificed principles to expediency: "Hitler took into account German public opinion."[126]

Even though collective German public opinion regarded Jewish overrepresentation in the professions as a serious problem, the aggregate of German individuals nonetheless preferred employing Jewish lawyers and doctors, despite the impediments placed in their way. These individuals included many civil servants, whose conduct was closely scrutinized and whose jobs were terminated for political indiscretions. They even included Nazi Party members.

> Civil servants and even members of party organizations were reluctant to surrender their trusted Jewish doctors. To check the state officials, the NSDAP [Nazi Party] in Baden passed an edict in June 1935 announcing their exclusion from the German civil servants' union should they not drop their Jewish doctors (as well as lawyers). And in Ulm . . . where the party had managed to obtain the patient list of two Jewish panel physicians, the authorities were shocked by the large number of civil servants still frequenting those doctors.
>
> But the wrath of the Nazis knew no bounds when they found out how many of their own number still engaged Jewish doctors—those people were traitors. . . . The examples were ample. . . . After her suicide attempt, Eva Braun, the Führer's mistress, was treated by . . . Jewish Dr. Martin Marx. . . .
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> In Thuringian Erfurt a few weeks later the local NSÄB [Nazi Physicians' League] and KVD [Associa-

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[125]Proctor, *Racial Hygiene*, pp. 90, 154. Ramm's statistics are somewhat inaccurate. Jews constituted 16.5 percent of all German doctors and 52.1 percent of those in Berlin at the beginning of 1933, when Jews comprised less than 0.75 percent of the national population. See Proctor, *Racial Hygiene*, p. 149. Of course, his statistics did not need to be completely accurate to show the enormity of the problem.

[126]Friedländer, *Nazi Germany and the Jews*, p. 69.

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> tion of German Health-Insurance Physicians] functionary Dr. Curt Staeckert issued a circular complaining about the increasing popularity of Erfurt's sixteen Jewish panel physicians. Charging that those doctors had at least doubled their incomes (which he was in a position to know as local head of the KVD) and that the incomes of some "Aryan" physicians had receded accordingly, he vented his rage against the real culprit, the National Socialist patient. . . . Staeckert served notice that henceforth he would control the patients and would cause the immediate dismissal of recalcitrant party and SA members. Civil servants and even private employees would not escape his punishment either. [But] "Aryan" patients, including civil servants and party cadres, were reluctant to leave their Jewish doctors.[127]

The situation of Jewish businesses was the same. As among professionals, Gentile competitors, acting individually and through municipal chambers of commerce and national trade associations, eagerly supplemented government anti-Jewish activities, and the government itself was not sluggish in taking action. On March 28, 1933, it called for a nationwide boycott of Jewish professionals and Jewish-owned businesses beginning on April 1, a Saturday, the day on which Germans did most of their shopping; in many cities and towns, the local government began the boycott a day early. The directive in which the boycott was announced stated that its goal was that "the number of Jews employed in all professions [be] in keeping with their percentage of the total German population," which had always been the basic anti-Semitic demand.[128]

Jewish businesses were covered with posters and graffiti with statements such as "Every mark in Jewish hands is stolen from the Fatherland." Two S.A. men, who were now auxiliary members of the police, were posted in front of Jewish businesses, chanting, shouting, and passing out leaflets. Often they used force to try to stop customers from entering, and/or showered them with insults, rubber-stamped their faces with abusive slogans, took their pictures and/or wrote down their names and then posted lists of "trai-

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[127]Kater, *Doctors under Hitler*, pp. 190–91, 194.

[128]Kater, "Everyday Anti-Semitism in Prewar Nazi Germany," pp. 153–55; Ian Kershaw, *Popular Opinion and Political Dissent in the Third Reich: Bavaria 1933–1945* (New York: Oxford University Press, 1983), pp. 245–46; Barkai, *From Boycott to Annihilation*, pp. 17–19, 64.

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tors to the people" on bulletin boards or published them in newspapers with their pictures. All these tactics were repeated in subsequent local boycotts.[129]

The boycott should have had a powerful impact. Forty-five percent of employed German Jews were in retailing, as owners, family members, or employees. As in all endeavors, Jewish success in retailing was strikingly disproportionate to their numbers. Jews owned 6 percent of all German retailing businesses, but accounted for 26 percent of retail sales and 79 percent of department-store sales.[130] Moreover, most of the Jews in industry and the crafts owned small businesses. But the Nazi press bemoaned the lack of cooperation against the "enemies of the people." In fact, the announcement of the forthcoming boycott triggered panic buying in Jewish stores before it took effect.[131]

The boycott's failure was not caused by deficient anti-Semitism. George Messersmith, the American consul in Berlin, reported both that Germans ignored the boycott and that anti-Semitism was pervasive.[132]

However, the nationwide boycott was only the official proclamation of a war. During the rest of 1933, local boycotts were

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[129]Klaus P. Fischer, *The History of an Obsession: German Judeophobia and the Holocaust* (New York: Continuum, 1998), pp. 244–45; Barkai, *From Boycott to Annihilation*, p. 19; Michael Burleigh and Wolfgang Wippermann, *The Racial State: Germany, 1933–1945* (Cambridge & New York: Cambridge University Press, 1991), pp. 77–78; R. Gellately, *The Gestapo and German Society: Enforcing Racial Policy 1933–1945* (Oxford: Clarendon Press, 1990), p. 109.

[130]Barkai, *From Boycott to Annihilation*, pp. 6–7; Donald L. Niewyk, *The Jews in Weimar Germany* (Manchester: Manchester University Press, 1980), p. 13.

[131]Friedländer, *Nazi Germany and the Jews*, pp. 22–25; Sarah Ann Gordon, *Hitler, Germans, and the "Jewish Question"* (Princeton, N.J.: Princeton University Press, 1984), pp. 168–69; Barkai, *From Boycott to Annihilation*, p. 23. On the evening of March 31, Goebbels announced that the boycott would last for only one day. But that was not known before the boycott, and the next day most people were not aware of it.

[132]Richard Breitman, *Official Secrets* (New York: Farrar, Straus, and Giroux, 1998), pp. 20–21.

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implemented in several cities, some lasting two weeks. Moreover, beginning in July, many municipal governments prohibited recipients of welfare vouchers, which were issued to welfare recipients and young married couples, from using them in Jewish stores. This became national policy in March 1934. Beginning in October 1933, many regional Nazi Party organizations and government agencies forbade government employees and Party members from buying in Jewish stores.[133]

A new wave of boycotts erupted in the spring and summer of 1935, accompanied with an unprecedented level of violence against Jews, their property, and their customers. It was regionally, not nationally, coordinated, but all parts of the country were affected at various times. However,

> Given the massive extent of the intimidation and coercion, it is remarkable how difficult the Nazis found it to break the ties between Jews and their non-Jewish customers. Reports from many parts of Germany, emanating from Nazi and non-Nazi sources, indicate how little the mass of Germans were persuaded by Nazi propaganda. . . . In Pomerania, for example, where the NSDAP [Nazi Party] had some of its best [electoral] results before 1933, the Gestapo office at Stettin reported . . . that a large proportion of the population—workers, better-off sections of the bourgeoisie, even *Beamte* [civil servants] and Party members, and above all, the rural population—were still shopping overwhelmingly in Jewish stores, saying they were cheaper, had a better range of choice. . . . Reports from Baden and in the South-West noted that Jewish shops were "overcrowded" and that people, undeterred by harassment and intimidation, were going where things were cheapest. In Mannheim, . . . Jewish department stores were doing "splendid business." . . . The Munich *Polizeidirektion* [police directors] saw the massive success of the annual sales at the leading Jewish clothing store in the city as a sign that many women still "had not understood nor want to understand the lines laid down by the *Führer* for solving the Jewish question." . . . In many places there were reports of Nazi Party members and even functionaries purchasing their goods at Jewish shops. One Jewish firm in Pirmasens had allegedly been

[133]Barkai, *From Boycott to Annihilation*, pp. 35–36, 56.

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making *Arbeitsdienst* [government labor-service] uniforms at favorable prices for the "Aryan" concern which had farmed them out.[134]

[These actions] were determined wholly by material considerations and by economic self-interest . . . nor was there any notable sign of support for the Jews as Jews . . . . Nazi pressure on the boycott issue encountered, therefore, no solid principled objections and no opposition from any institutions, such as the churches.[135]

When . . . non-Jews in Falkenstien . . . were forbidden to patronize Jewish stores, they travelled to neighboring Auerbach, where they could still patronize the Jewish stores; in turn, non-Jews in Auerbach travelled to Falkenstein for the same purpose. For large-scale purchases, non-Jews from both towns travelled to Plauen, where there was a Jewish department store: "If you happened to know someone you ran into there, neither of you had seen the other. That was the tacit understanding." . . . Even [Nazi] party members . . . were not deterred from doing business with Jews. . . . While hordes of party activists were beating up Jews, other party members were faithfully buying at Jewish shops.[136]

The same gap between the avalanche of propaganda and the public reaction to it emerges from surveys in the Trier area. . . . Notices were posted demanding a boycott of Jewish shops, windows were smashed, and Jews were beaten up in the streets. . . . Yet . . . the majority of the population . . . continued shopping at Jewish stores. In one shop during Easter sales there were so many custom-ers that the Jewish shopkeeper was forced to close several times, in order to serve all of them properly. . . . We rarely find rejection of Nazi antisemitism on ethical prin-ciples, or indignation based on humanitarian values. . . . The real motives . . . [were] utilitarianism or self-interest.[137]

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[134]Ian Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," *Year Book of the Leo Baeck Institute* 26 (1981): 266. This type of subterfuge is, of course, the invariable and inevitable accompaniment of affirmative action.

[135]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," p. 268.

[136]Friedländer, *Nazi Germany and the Jews*, p. 126.

[137]David Bankier, *The Germans and the Final Solution* (Cambridge,

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> The Gestapo stations in Cologne and Düsseldorf observed, "When the worker is asked why doesn't he support small German enterprises, he answers that he goes where things are sold cheap."[138]

Nazi party members who made large purchases at Jewish shops included Hermann Göring, and many prominent Germans continued to keep their assets in Jewish banks. High Nazi party members patronized Jewish-owned hotels despite official boycotts, and some even formed business partnerships with Jews. As a result, a Nazi administrator reported that even under Nazi rule, "In business life the Jewish presence is still getting stronger."[139]

The same situation prevailed in rural areas, where

> The main issue was the remaining dominance . . . of the Jewish cattle-dealer, the traditional middle-man and purveyor of credit for untold numbers of German peasants. Despite vicious intimidation and ceaseless propaganda, . . . ideology was less important than economic self-interest. Most peasants were unconcerned with the racial origin of the cattle-dealer as long as his prices were good and his credit readily forthcoming. . . . The authorities noted with disgust the basic pragmatism and blatant economic self-interest of the peasantry, as a result of which "the Party's long task of enlightenment is quickly brought to nothing." . . . In the Palatinate, the mood among small winegrowers was reputedly very poor in 1935 because the Nazis were driving out the Jewish dealers and replacing them with "Aryans," who were unable to provide the same supply of credit. Similar complaints were made in Bavaria. "Aryan" cattle-dealers had little capital and could not offer prices comparable with those of their Jewish rivals. The consequence was that . . . even as late as 1937 the Gestapo at Munich were forced to concede "shocking results" arising from their enquiry into relations of peasants and Jews.[140]

The wholesale cattle trade in the Ebermannstadt area

Mass.: Blackwell, 1992), pp. 72–73.

[138]Bankier, *The Germans and the Final Solution*, p. 93.

[139]Friedländer, *Nazi Germany and the Jews*, pp. 126–28, 232–33.

[140]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," p. 267.

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was in 1935 still "to a good ninety per cent" in Jewish hands, and enquiries in autumn 1936 came to the "regrettable" conclusion. . . . "Here the cattle-Jew trafficks just as ever in farmhouses. When questioned, the peasants explain almost in unison that the Jew pays well, and pays cash, which is not the case with Aryan dealers." . . . Even Party members and village mayors were not adverse to keeping ideological precepts and practical profits separate. There are numerous instances on record of functionaries and local dignitaries trafficking with Jews. . . . [At] the end of 1937, a not untypical report from a village in Lower Franconia shows the position clearly. The mayor stated that it was difficult to provide a list of names of peasants dealing with Jews, as requested, since apart from Party members almost all peasants still carried out their transactions with Jews. . . . Peasant attitudes were determined almost wholly by material considerations and economic self-interest. . . . The fourfold increase in sales of the [fanatically anti-Semitic] *Stürmer* during the first ten months of 1935 . . . was testimony . . . to the fact that anti-Semitism was gradually gaining ground in popular opinion. And certainly the fact that peasants continued to trade with Jewish dealers does not make them pro-Jewish. . . . The only question that mattered was the price of the cow. . . . In one Upper Bavarian village, where some peasants were worried that the anti-Jewish notices set up by the Hitler Youth would deter Jews from coming to buy up their hops, the boards—"Jews not wanted here"—disappeared . . . [and were] replaced with an amended text: "Jews very much wanted here."[141]

The peasantry seemed unwilling to forgo the services of the Jew as shopkeeper or cattle dealer: "because of the economic advantages they gained from dealing with Jews who paid cash and sold on credit; they [the peasants] were reluctant to make the move to the Aryan cattle dealers whom the Nazis tried to encourage." . . . The peasants often chose to buy solely in Jewish stores . . . "because at the Jew's it is cheaper and one has a greater choice [of merchandise]."[142]

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[141]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," pp. 241–44.

[142]Friedländer, *Nazi Germany and the Jews*, p. 126.

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Economic self-interest prevailed not only over intensive propaganda and the long-held and nearly universal belief that Jewish economic predominance is a serious problem, but also over the danger of physical violence. To use the examples again of stores and cattle dealers: Nazi thugs "not only attack[ed] Jewish stores in broad daylight but also assault[ed] their owners, their customers, and sometimes even their Aryan employees." Peasants who dealt with Jewish cattle dealers, like customers of Jewish stores, were denounced by name in newspapers, and, "for example, approximately one hundred SA men descended on the cattle market . . . and indiscriminately attacked both [Jewish] dealers and their customers, causing some to suffer severe injuries."[143]

The incident just described, which was typical, occurred in July 1935. Yet, in November 1935, a Gestapo report stated, "The Jews almost completely control the cattle trade . . . they have transferred their activities to late evening or to night time." Almost a year later, a government report warned, "The peasants' business relations with Jews have assumed such a dimension that the political leadership felt prompted to intervene energetically."[144]

This situation prevailed even in Middle Franconia, where the fanatically anti-Semitic Julius Streicher was *gualeiter*, and which had long been one of the most anti-Semitic regions in Germany, maybe the most anti-Semitic, and one of the few regions in which the population joined in anti-Jewish violence. It was also a region in which those labeled as "'friends of the Jews' were exposed to practically the same danger as Jews themselves."[145]

> In 1936–7 the Party . . . made renewed attempts to destroy trading contacts with Jews. The revitalized boycott encountered little sympathy, it seems, even in Streicher territory. Those who stood to gain economically through trading in Jewish shops, trafficking with Jewish cattle-dealers, providing accommodation for Jewish visitors to tourist resorts, or finding work in Jewish-owned firms were not eager to . . . boycott Jews.

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[143]Friedländer, *Nazi Germany and the Jews*, pp. 137–38; Gellately, *The Gestapo and German Society*, p. 109.

[144]Friedländer, *Nazi Germany and the Jews*, p. 233.

[145]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," pp. 235–38.

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> Economic self-interest clearly prevailed over ideological correctitude.[146]
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> In late 1935 . . . hop-growers from communities around Hersbruck (Middle Franconia) who dared sell to Jewish traders were branded as traitors and marched through villages with signs round their necks. Such measures hardly met with instant success, for as late as mid-1937 long lists of those who kept dealing with Jews were drawn up and direct pressure applied. The situation was the same across Bavaria; districts with a tradition of Jewish cattle-dealing (which included even anti-Semitic areas such as Middle Franconia) had to be forced to give them up, and when, in 1938, Jews were finally driven from the trade altogether, the mutterings of the peasants indicated that they were missed.[147]

A 1937 Nazi Party report still complained that "large parts of the population, and even of the Party community, do not bother . . . even about the most basic demand, namely not to buy from the Jew. This . . . [is] sabotage." In April 1938, most of the Jewish small businesses that had existed in Berlin before the Nazi takeover were still functioning, which means that Jews were still vastly overrepresented in German business. Jewish businesses continued to operate even after the ban that Göring issued in late 1938 against all Jewish business activity. In 1939, many of the members of a German crowd, watching Jews who had been transported to the French border and sent back to Germany by the French, remarked that the Aryans who had taken over Jewish businesses "are more expensive and have poorer quality goods."[148]

Even Adolf Hitler bought drapery from Wallach, a Jewish textile-manufacturing firm. In fact, the curtains on the windows of his retreat, the Berghof, were clearly identifiable by their distinctive designs as being Wallach's. (Göring was another of Wallch's customers.)[149]

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[146]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," p. 240.

[147]Gellately, *The Gestapo and German Society*, p. 105.

[148]Friedländer, *Nazi Germany and the Jews*, pp. 233, 235, 237, 302, 317, 323.

[149]T. Barta, "Living in Dachau: Bavarian Catholics and the Fate of the Jews, 1893–1943," in John Milfull, ed., *Why Germany?: National Social-*

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Obviously, most of these Jewish businesses could not keep functioning without Aryan employees.

> Economic interest predominated over ideology also among workers who felt the threat of unemployment if their Jewish employer were ruined. Enquiries into the overwhelmingly Jewish ownership of cigar factories in Lower Franconia in 1935 met with the unanimous response that the population were [*sic*] glad to have work and did not ask whether the employer was an "Aryan" or a Jew.[150]

The situation in music was the same.

> Most Jewish musicians emigrated during the first three years of Hitler's regime, but to the Nazis' chagrin, it was more difficult to get rid of Jewish tunes. . . . [Arguments] that audiences often asked for such music . . . were refuted on the grounds that it was the duty of "Aryan" musicians to educate their listeners by consistently presenting non-Jewish programs.[151]

The problem that the Nazis faced in trying to force a highly anti-Semitic population to stop preferring Jews over Gentiles in business and culture was an old one. Wilhelm Marr, who founded the Anti-Semitic League in 1879,

> accused women of causing the failure of the anti-Semitic effort "Don't Buy from Jews." The women broke the boycott by buying from (presumably cheap) Jewish stores and by filling the theaters . . . [owned] by Jews.[152]

It has often been observed that Hitler did not differ from most people in his ideas, but in the absoluteness with which he held those ideas and the unsentimental thoroughness with which he put them into effect. "Hitler's originality lay not in his ideas, but in the terrifying literal way in which he set to work to translate those

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ist Anti-Semitism and the European Context, (Providence, Rhode Island: Berg, 1993), p. 56 n.16.

[150]Kershaw, "The Persecution of the Jews and German Popular Opinion in the Third Reich," p. 267; cf. p. 241.

[151]Friedländer, *Nazi Germany and the Jews*, p. 132.

[152]Mosche Zimmermann, *Wilhelm Marr: the Patriarch of Antisemitism* (New York: Oxford University Press, 1986), p. 101.

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ideas into reality, and his unequalled grasp of the means by which to do this."[153]

He told Hermann Rauschning, "I have a gift of reducing all problems to their simplest foundations," and, "I have the gift of simplification. . . . Difficulties exist only in the imagination."[154] After quoting the second statement, Rauschning, who was usually reluctant to grant Hitler any positive qualities, said,

> There is no doubt that he did possess this gift of simplification, even in a creative sense, up to a point. He has a gift, like many self-taught men, of breaking through the wall of prejudices and conventional theories of the experts, and in so doing, he has frequently discovered amazing truths.

Hitler's solution to the Jewish problem is an excellent illustration of this gift. He saw what few others did, that if the overrepresentation of a group of people in desirable occupations is a problem, biological elimination is the only solution.

Prejudice is free, but discrimination has costs.

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[153]Alan Bullock, *Hitler: A Study in Tyranny* (New York: Konecky & Konecky, 1962), p. 408.

[154]H. Rauschning, *Hitler Speaks* (London: Thornton Butterworth, 1939), pp. 16, 30.

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REVIEW OF JOSEPH S. FULDA
EIGHT STEPS TOWARD LIBERTARIANISM
BELLEVUE, WASH.: FREE ENTERPRISE PRESS, 1997

by Walter Block*

According to the nursery rhyme, "There once was a girl with a curl. When she was good she was very very good; when she was bad she was horrid." As for the girl, so for this book.

The first two basic premises of Fulda's concept of libertarianism are welcome ones. His spiritual case for liberty is based on our natural right to freedom, provided that the exercise of it "in no way remove[s] the free will of others." His moral case is the familiar and profound non-aggression-against-non-aggressors axiom of libertarianism: "the use of force, except in self defense . . . is simply wrong." Ah, if only he had stood pat with these two.

But his third premise is "the greatest happiness of the greatest number." Now, if all this means is that the voluntary trades of the market benefit all *ex ante*—indeed, the author spends much of his book demonstrating this one point in a series of insightful vignettes—this is again all well and good. But in identifying this premise with Mill and Bentham, he opens himself up to all sorts of leftish take-from-the-rich-and-give-to-the-poor nostrums. Of course, this is totally incompatible with his first two premises.

Another difficulty arises with Fulda's defense of limited government. One support for his position is Nozick.[1] But Nozick's book, particularly the very sections cited where Nozick attempts to demonstrate how a state could come into being and continue to exist without violating the libertarian axiom of non-aggression, has

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[1]Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974).

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been subjected to withering and total refutation.[2] For a serious scholar to draw comfort from Nozick without confronting this extensive literature is irresponsible.

Fulda's second pillar of support for the minimal state is Levin.[3] Here, our author stands on better ground, at least insofar as there is no similar body of literature that has laid waste to the thesis, and thus he is not guilty of ignoring it. On substantive grounds, though, Levin offers no more defense of a government compatible with libertarianism than does Nozick.

Levin's argument is as follows: "Is there something special about surrendering one's sword [to the sovereign] that does not apply [to] surrendering one's plow?" In the former case, "this liberty need never be exercised." But in the latter, "the need [for] food—the need which up to now we have severally used our plows to meet—will persist unchanged after the surrender." Levin concludes: "The point of surrendering one's sword does not therefore apply to surrendering one's plow, or indeed to any other liberty but those whose surrender eliminates their need."[4]

There are problems here. That the state would not be an efficient provider of food will occasion no surprise in these quarters, but that it is a "strong and fearsome deterrent to aggression" surely will. What with foreign wars and domestic tortures, real world governments have a lot to answer for in terms of not only failing to protect citizens against coercion, but for killing people (their own citizens as well as foreigners) on a massive scale. It is no accident

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[2]See the symposium on this question in the *Journal of Libertarian* Studies 1, no. 1 (Winter 1997). Contributors to the symposium included Williamson Evers, "Toward A Reformulation of the Law of Contracts," pp. 3–14; Randy Barnett, "Whither Anarchy? Has Robert Nozick Justified the State?," pp. 15–22; Roy A. Childs, Jr., "The Invisible Hand Strikes Back," pp. 23–34; John T. Sanders, "The Free-Market Model versus Government: A Reply to Nozick," pp. 35–44; and Murray N. Rothbard, "Robert Nozick and the Immaculate Conception of the State," pp. 45–58. Also see Hans-Hermann Hoppe, "Introduction" to Murray N. Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998).

[3]Michael Levin, "A Hobbesian Minimal State," *Philosophy and Public Affairs* 11 (Fall 1982): 338–53.

[4]Levin, "A Hobbesian Minimal State," pp. 4–5

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that the truly mass murders of human history (Hitler, Stalin, Mao, Pol Pot) are all associated with governments. In contrast, the Son of Sam, Charles Manson, Jeff Kozinski, the Menendez brothers, O.J. Simpson, and Jeffrey Dahmer were mere amateurs. Even the much-vaunted "war on drugs" that politicians around the world are now waging kills thousands of innocents both directly (through inept raids) and indirectly (by promoting a black market, gang warfare, and the economic need for addicts to rob and kill to satisfy their habits).[5]

Suppose that an individual refuses to turn in his sword to the all-benevolent state. What then? Does the sovereign (remember, we're talking Bill Clinton, now) have the right to force him to do this? If so, what of Fulda's second principle of libertarianism? If not, this is a mighty strange sort of government under consideration. Suppose this individual wishes to secede,[6] or make safety arrangements with a private defense agency, and not bow down to that "gang of robbers and thieves"[7] puffing themselves up by calling themselves a sovereign government and setting themselves up above him. Again, the same questions arise. Levin and Fulda argue that if we give our plows to the state, we'll still have to sow and reap on our own accounts. Why won't we still have to defend ourselves after we have given our swords to Bill Clinton? In this regard, the reader is directed to make inquiries of those who perished in Soviet Gulags, Nazi concentration camps, at Ruby Ridge or Waco, or, for that matter, of all who pay taxes against their will.

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[5]Of course, I do not contend that Fulda and Levin *favor* any such activities. Indeed, the contrary is very much the case. However, it is exceedingly difficult to reconcile such statist deeds with the supposition that this institution is or would be a "strong and fearsome deterrent to aggression."

[6]See on this Robert McGee, "A Theory of Secession for Emerging Democracies," *Asian Economic Review* 33, no. 2 (August 1991): 245–65; Robert McGee, "The Theory of Secession and Emerging Democracies: A Constitutional Solution," *Stanford Journal of International Law* 28, no. 2 (192): 451–76; Robert McGee and Danny Lam, "Hong Kong's Option to Secede," *Harvard International Law Journal* 33, no. 2 (1992): 427–40; and Robert W. McGee, "A Third Liberal Theory of Secession," *Liverpool Law Review* 14, no. 1 (1992): 45–66, n. 7; and David Gordon, ed., *Secession, State, and Liberty* (Auburn, Ala.: Ludwig von Mises Institute, 1997).

[7]See Lysander Spooner, *No Treason* (Larkspur, Colo.: Ralph Myles, 1966).

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Fulda speaks in terms of the "dread taxing power" of the state, and opines, reasonably enough, that "the power to tax is indeed the power to destroy" (p. 26). But how else does he think his "minimalist government" will raise the funds necessary to perform its "limited" functions? To say that taxes would be lower than at present were the state to stick to this one task, while obviously true, is no answer at all, since such a scenario would still be in violation of his own second premise (non-aggression). Nor is it clear, when one side imposes taxes on the other, why it would stay "minimal" for any length of time.[8]

When criticizing people that he calls "social libertarians"[9] (p. 15), Fulda maintains, quite correctly, that "initial acceptance [of contracts] is also a requisite." Our author goes so far as to characterize as desirable "a person affixing his signature to a document" (p. 19). But if so, why doesn't this also hold true when considering something of considerably far more importance than any one contract—the so-called legitimate creation of this state monopoly of violence within a given geographical area through an unsigned constitution?

Puzzling, too, is Fulda's attribution to the Friedmans "that government programs are *necessarily* wasteful (p. 6)."[10] Staunch empiricists, these authors have never used the word "necessary" in their lives, apart from geometry, mathematics, definitions and other (for them) tautological systems.[11] They certainly do not say any such thing in the pages cited by Fulda. Were they to have done so,

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[8]On the other hand, our author seems a bit ambivalent about the state, quoting with approval Thoreau's judgment "that government is best which governs not at all" (p. 68). This boosts his credentials as a libertarian, to be sure, but not as a logician.

[9]They sound more like liberals than libertarians.

[10]Milton and Rose Friedman, *Free To Choose: A Personal Statement* (New York: Harcourt, Brace, Jovanovich, 1980).

[11]For an antidote to this philosophical view, see Ludwig von Mises, *Human Action* (Chicago: Regnery, 1966); see also Hans-Hermann Hoppe, *Praxeology and Economic Science* (Auburn, Ala.: Ludwig von Mises Institute, 1988); Hoppe, "On Praxeology and the Praxeological Foundation of Epistemology and Ethics," in Jeffrey Herbener, ed., *The Meaning of Ludwig von Mises* (Boston: Dordrecht, 1992).

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they would have contradicted their life-long rejection of the synthetic *a priori* in this one case.[12]

These are the main flaws in the book from a libertarian point of view. Unfortunately, they do not exhaust the litany of errors. Consider the following. Fulda:

- buys into the notion that we can have property rights in our reputations (p. 24). On the contrary, our reputations consist of nothing apart from *other's* thoughts about us, and, since we cannot own their thoughts, we cannot own our own reputations, paradoxical as this might sound to the non-libertarian.[13]
- conflates libertarianism with conservatism (pp. 23, 25, 60).[14] While conservatives, some of them, sometimes favor the free-enterprise system, most of them do so only sporadically, or not at all.[15]
- confuses normative and positive economics with his misconception of the Austrian School as a promoter of "economic freedom" (p. 27). It is no such thing; it is, rather, a perspective that seeks to understand and explain economic reality. Of course it cannot be denied that Austrians are among the strongest supporters of capitalism; but this is not, it cannot be, *qua* Austrians.
- places altogether too much weight on privacy, giving it equal billing with property as a support of liberty (pp. 16, 47). He specifically rejects the libertarian notion that privacy properly *stems* from private property rights, without coming to grips with adherents of this view.[16] But if privacy is a right at all (never mind one

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[12]Fulda's continual citation of Friedman and Hayek as exemplars of libertarianism is also somewhat off-putting. For an alternative view, see Walter Block, "Hayek's Road to Serfdom," *Journal of Libertarian Studies* 12, no. 2 (Fall 1996): 327–50; Murray N. Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998), pp. 219–30.

[13]On this see Rothbard, *The Ethics of Liberty*, pp. 126–28; Walter Block, *Defending the Undefendable* (New York: Fox and Wilkes, 1991), pp. 59–62.

[14]Can any greater error be imagined?

[15]My first personal experience of this was at the Young Americans for Freedom convention in St. Louis in the 1970s. Two groups were there; the conservatives were the larger, and the libertarians the smaller. And the reaction of the former to the latter? They called us "lazy fairies," to indicate their aversion for the system of *laissez-faire* capitalism.

[16]See Rothbard, *The Ethics of Liberty*, pp. 121–22.

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that is co-equal with property) then several unwarranted conclusions follow: gossip would have to be outlawed, as would the activities of detectives, investigative reporters, and photographers with long-range cameras, since all of these occupations specialize in denigrating privacy. With all of these professions illegal, it would be a strange world, but not a libertarian one.

- maintains that "social sanctions can be just as noxious as state sanctions and is therefore concerned with the proper limits on social reprobation" (p. 56). But in a libertarian society, there would be *no* legal limits on such things as boycotts, discrimination, spurning, ostracizing, holding people in contempt, etc., for these acts are *always* (not just "generally") non-coercive. *Any* limitation on them, then, constitutes a diminution in liberty.

- takes the position that "nobody gains anything of value from the anti-crime enterprise . . . since it consumes vast resources unproductively." He makes, reasonably, exceptions for the "rent-seeking" activities of policemen, jailors, judges, etc., but we are still left with the view that there is something intrinsically non-productive about defense against criminals. Do police, courts, detectives (private ones, of course) add *nothing* to our well-being? As shown by his willingness to pay for these services when allowed to do so, the consumer feels otherwise. To be sure, if there were no criminals, then defense would be non-productive. But the same can be said for rain and umbrellas.

- holds that "monopoly power is necessary to rein in crime" (p. 69). If so, then the only way to deal with international criminals is to set up a powerful world government, perhaps under the auspices of the United Nations. At present, no one nation, not even that policeman-to-the-world the United States, has anything like a monopoly on total global power. Surely this is an initiative unwelcome even to our author.

- seems unaware of the debate raging within Austrian circles between those who view proper money as limited to warehouse receipts and those who see it as also including promissory fractional reserve notes.[17] Fulda treats these two vastly different systems as equivalent (p. 82) without delving into the arguments of either side.

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[17]On the former, see Hans-Hermann Hoppe, Jörg Guido Hülsmann, and Walter Block, "Against Fiduciary Media," *Quarterly Journal of Austrian*

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• takes the negligence side of the debate over tort liability vis-à-vis strict liability without dealing with or even noting the arguments of the latter (p. 84).[18] Again, my problem is not so much that he fails to agree with the libertarian side of this controversy (although this is disappointing in a book with that name in its title) as it is with his failure to realize that there even *is* such a perspective in the literature.

• equates "omission (to provide) damaging information" with fraud and misrepresentation (p. 93). It would appear from this that sellers have a duty to tell the whole truth and nothing but the truth to buyers about goods for sale. If so, this would be a violation of the libertarian stricture that there is no such thing as a positive right, and that there is no (non-contractual) obligation to respect anything other than negative rights. If the buyer wants full disclosure, let him buy it on the market, if it, in addition to the good itself, is offered for sale. Whatever became of the libertarian reliance on *caveat emptor*?

Economics 1, no. 1 (1998): 19–50; Murray N. Rothbard, "The Myth of Free Banking in Scotland," *Review of Austrian Economics* 2 (1988): 229–45; Murray N. Rothbard, "Aurophobia: or, Free Banking on What Standard? A Review of *Gold, Greenbacks, and the Constitution* by Richard Timberlake," *Review of Austrian Economics* 6, no. 1 (1992): 97–108; Murray N. Rothbard, "The Present State of Austrian Economics," *Journal des Economistes et des Etudes Humaines* 6, no. 1 (1995): 43–89.

For the latter, cf. George Selgin, *The Theory of Free Banking: Money Supply under Competitive Note Issue* (Totowa, N.J.: Rowan and Littlefield, 1988); George Selgin and Lawrence H. White, "In Defense of Fiduciary Media—or, We are *Not* Devo(lutionist), We Are Misesians!," *Review of Austrian Economics* 9, no. 2 (1996): 83–107; Lawrence H. White, "Competitive Payments Systems and the Unit of Account," *American Economic Review* 74, no. 4 (September 1984): 699–712; White, *Competition and Currency* (New York: New York University Press, 1989); and Lawrence H. White, "Review of *Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard*," *Journal of Economic Literature* (June 1990): 664–65.

[18]For the negligence side, see Richard Epstein, "Crime and Tort: Old Wine in Old Bottles," in Randy E. Barnett and John Hagel III, eds., *Assessing the Criminal* (Cambridge, Mass.: Ballinger, 1977), p. 707. For the strict liability argument, cf. Murray N. Rothbard, "Law, Property Rights, and Air Pollution," in Walter Block, ed., *Economics and the Environment: A Reconciliation* (Vancouver, B.C.: The Fraser Institute), p. 247.

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So much for the "horrid" parts of the book. Despite the litany of errors listed above, the "good parts" are very good indeed, and actually dominate the book. For a (limited) statist, Fulda is really quite a radical libertarian. He argues, intelligently and passionately, for example, for "private schooling, private roads, private water supplies, private bank insurance, voluntary charity and relief . . . and for such now-quaint, but perfectly workable ideas as privately coined and minted money" (p. 7). His treatment of how the poor benefit more than the rich from capitalism is alone worth the price of admission. He defends those such as the landlord and the employer and their ilk with wit and verve. I was at the edge of my seat, cheering him on (and learning as well) when he eviscerated zoning, public air waves, labeling requirements, regulatory agencies, "economic power," drug prohibition, and much more.

For Fulda, moreover, the proper attitude toward the state remains eternal vigilance tinged with fear. Also most welcome is his insistence that the marketplace makes us sensitive to the needs of others.

I have devoted the lion's share of this review to criticism. I do this, first, because of my inescapably negative personality, and, second, because it is more instructive to contrast an opposing opinion than to continually congratulate an author. But I appreciate, and warmly so, the overwhelming majority of this book. I welcome Fulda to the ranks of libertarianism, and look forward to having insightful discussions with this author.

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REVIEW OF BRUCE BENSON
TO SERVE AND PROTECT: PRIVATIZATION AND COMMUNITY IN CRIMINAL JUSTICE

NEW YORK UNIVERSITY PRESS, 1998
pp. 372, xxviii

by Mark Thornton*

This is the most important book on public policy to be published in a long time. Benson takes on the most pervasive government activity, the criminal justice system, and addresses the critical issue of our high crime rate. There are no clear "academic" solutions to this problem, but Benson presents a clear and sensible solution derived from the insights of Austrian economics—the privatization of the criminal justice system.

Small-government conservatives and law-and-order libertarians beware: this book will challenge your basic beliefs and ultimately change your mind about the role of government in the criminal justice system. Big-government civil libertarians and liberals face an even more difficult challenge because for them this book does not challenge their *exception*, but their *rule* that government should control the important institutions in society.

Benson is an Austrian economist at heart. However, his training and expertise go beyond to include public choice theory, property rights economics, neoclassical economics, law and economics, location theory, economic history, and econometrics. His opponents will find his work thorough and difficult to refute. In addition, Benson has already published two books on the subject, *The Enterprise of the Law*[1] and *The Economic Anatomy of a Drug War:*

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[1]Bruce Benson, *The Enterprise of Law* (San Francisco: Pacific Research Institute for Public Policy, 1990).

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Criminal Justice in the Commons,[2] plus a career's worth of academic journal articles on the subject of criminal justice.

The first section of the book addresses current trends in crime and privatization of criminal justice. He shows that the contracting out of certain aspects of criminal justice produces better services at a lower cost and that the "pitfalls" of privatization are the fault of the contractee (the government), not the contractors.

Benson also introduces his major themes. First, privatization of criminal justice is already a huge and successful set of industries that respond effectively to government failure. Second, to be effective, the philosophy of criminal justice should be based on restitution and the rights of victims. Third, the entire criminal justice system can and should be privatized. The combination of basic economics and detailed evidence is compelling.

Time and again, the private sector is shown to excel at its tasks in the criminal justice system while government bureaucracy is more expensive and less effective. For example, private bail bondsmen bring 99 percent of criminals to "justice" while the public alternative performs much worse at a higher cost. Private security firms, private police force companies, private streets, private prisons, and private courts all perform far better at a lower cost than do their counterparts in the public sector. And of course, the private sector also includes burglar alarms, self-protection and anti-theft devices, volunteer watch groups, and the gun supply industry—all of which have a record of excellence in fighting crime.

One might object that a criminal justice controlled by private interests would have problems like neglect of the poor, low quality, abuse of power, and monopolization. Austrian theory would argue the contrary, and Benson supplies the evidence that illustrates why these concerns are unfounded. He shows how the public police and justice system fail the poor and how the private sector helps the poor. Examples such as private streets in St. Louis, private guards in low-income apartment complexes, and private police forces for low-income neighborhoods in New York City put to rest concerns for the poor in a private system.

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[2]Bruce Benson and David W. Rasmussen, *The Economic Anatomy of a Drug War: Criminal Justice in the Commons* (Lanham, Maryland: Rowman and Littlefield, 1994).

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Abuse of power is likewise not a problem of the private but of the public sector. Public police shoot and kill far more *innocent citizens* than private police and security guards shoot in total—*criminals plus innocents*—despite the fact that there are two and a half times more private cops and that private cops spend a far higher percentage of their time "on the beat." Benson also relates the case of three female roommates who were robbed and physically and sexually assaulted for hours despite the fact that they had repeatedly called police for help. The public police who failed to protect the girls were found not guilty, in line with previous decisions of government courts. You can well image a different result had it been a private security firm responsible for the girls' safety.

Another powerful aspect of the book is the historical examples of effective and completely private justice systems. Our Anglo-Saxon forerunners had a private system of justice that worked extremely well until government intervention—designed to increase government revenues—degraded the system, moved it away from restitution to government fines, and created numerous "unintended consequences" that we must live with today. Likewise, Colonial and early America had a largely private justice system that worked extremely well, and Benson reports on research that shows that the Wild West was not nearly as wild as fiction writers would have us believe. Wagon trains, land clubs, mining camp associations, vigilante justice, and near-universal gun ownership created a generally peaceful and low-crime society until the Federal Marshall and government soldiers appeared.

In England and America, government police forces were long opposed because of the fear that a monopoly police force would result in a police state, as it had in other countries. The early record of public police in America shows that these fears were well justified and that, even today, public police engage in everything from large-scale drug corruption to outright highway robbery.

Restitution is the key to a privatized criminal justice system. Victims can receive restitution for crimes committed against them so they have incentives to pursue criminals, reward witnesses, and hire professionals to track down the criminal. Reporting of serious crimes has now fallen to less than 50 percent, but nearly 100 percent of automobile thefts are reported because victims expect to get restitution from their insurance companies. A restitution-based

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system is simply more effective than rehabilitation (liberal view) and punishment (conservative view) because it is more effective at both punishment and rehabilitation, and thus in reducing crime. However, Benson also carefully explains his personal view that such matters should be decided on the basis of liberty and justice, not primarily on efficiency.

Benson shows that restitution is the basis of the Japanese's highly touted criminal justice system. Further, restitution is successful in a wide variety of applications. In addition, he shows that current restitution and victim's rights laws in the United States are phony, and when used at all are "only for the benefit of the state."

This is just a sampling of the highlights of a great book. The author addresses the potential pitfalls of private justice and its critics in a thorough and dispassionate manner. Obviously, this book is highly recommended. Buy several copies, read one carefully, and give the rest to promising students, libraries, your statist friends, and favorite politicians.

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